You should read the following discussion and analysis together with our historical financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this document. Our historical financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business."

OVERVIEW

We are a leading spicy snack food company in China with strong growth momentum and an influential brand. According to Frost & Sullivan, in terms of retail sales value in 2021, we ranked first among all spicy snack food enterprises in China, with a market share of 6.2%, and ranked first in each of the seasoned flour product and spicy vegetable snack product categories. Weilong is a popular snack food brand among young consumers in China. To fulfill our mission "to let the world fall in love with Chinese flavors", we are committed to making authentic Chinese gourmet more entertaining, casual, convenient and affordable, and to introducing more spicy snack food products that offer consumers a cheerful consumption experience.

We have a diversified spicy snack food product portfolio, covering seasoned flour products, vegetable products and bean-based and other products. The first two product categories account for most of our revenue.

We recorded rapid growth in revenue and outstanding profitability from 2019 to 2021. In 2019, 2020, 2021, and the six months ended June 30, 2021 and 2022, our total revenue reached RMB3,384.8 million, RMB4,120.4 million, RMB4,800.2 million, RMB2,302.8 million and RMB2,260.5 million, respectively, while our net profit was RMB658.1 million, RMB818.8 million, RMB826.7 million, RMB357.6 million and a net loss of RMB260.8 million, respectively, and our net profit margin was 19.4%, 19.9%, 17.2%, 15.5% in 2019, 2020, 2021 and the six months ended June 30, 2021 and our net loss margin was 11.5% in the six months ended June 30, 2022. Our adjusted net profit (Non-IFRS measure) amounted to RMB659.0 million, RMB821.2 million, RMB907.8 million, RMB379.6 million and RMB424.9 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, and our adjusted net profit margin (Non-IFRS measure) was 19.5%, 19.9%, 18.9%, 16.5% and 18.8% during those periods, respectively.

IMPACT OF COVID-19 AND COMPANY'S RECENT DEVELOPMENT

Impacts of the COVID-19 Outbreak

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. In response, China, together with other countries and regions across the world, has taken various measures to contain the spread of the virus. In the first half of 2022, there had been large-scale resurgence of COVID-19, including the highly transmissible Delta and Omicron variant in various provinces across China (the "Resurgence").

Although there was no suspension of operations at our production plants, our production capacity was affected in April 2022 primarily due to higher absence rate of work staff. Our supply chain was also, to a certain extent, impacted. As we have maintained long term relationship with nationwide suppliers, such impacts on our raw material procurement were limited. We have also taken additional measures including procuring from back-up suppliers, applying for transportation pass, designating specialized coordinator, and utilizing self-owned vehicles to pick up goods, to minimize the negative impact on our raw material procurement. We have not encountered any shortage of raw materials. On the other hand, some of our product deliveries were delayed. During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes, litigation, or legal proceedings for not being able to fulfill our orders resulting from COVID-19 outbreak which would have a material adverse effect on our business.

We prioritize the health conditions of our employees in all our business operations. In response to the COVID-19 outbreak, we have employed various measures to mitigate the impact of the COVID-19 outbreak on our business operations, such as (i) organizing shuttle buses for our staff and monitoring them closely to track their health and wellness status; (ii) increasing salaries for certain production workers to alleviate their financial difficulties, which also helped us retain a steady workforce; and (iii) increasing our sales and marketing efforts on online channels that are catered to the evolving consumption habits and preferences. In response to the Resurgence, we have employed measures including (i) conducting routine sanitization; (ii) requiring regular negative COVID-19 PCR result; (iii) providing preventive gears such as masks, gloves, and medicines; and (iv) designating separate venue for quarantine purposes.

There is no guarantee that the prolonged pandemic will not affect the demands for our products and our operations in the future. Should China experience a further outbreak, our business operation may be impacted. Our results of operations and financial position will be affected by the future development of COVID-19, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable.

See "Risk Factors – Risks relating to Our Business and Industry – The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions." As of the Latest Practicable Date, our business operations and financial conditions were not materially impacted by the COVID-19 outbreak.

Recent Developments

Our business operations and financial results remained relatively stable since June 30, 2022, while we observed a slight decrease in sales for the ten months ended October 31, 2022, primarily due to (i) the regional resurgences of COVID-19 in certain parts of China; and (ii) the price adjustment resulted from our recent product upgrade in our major product categories in the first half of 2022. See "Financial Information – RESULTS OF OPERATIONS – The six months ended June 30 2022 compared to the six months ended June 30, 2021." Leveraging our strong brand awareness, broad customer base and efficient supply chain management, we do not expect that COVID-19 and price adjustment would materially and adversely impact our results of operations and profit margins in 2022.

Our profit for the year in 2022 is expected to decrease substantially mainly due to the share-based payments related to Pre-**[REDACTED]** Investments in relation to the supplemental agreement of share purchase agreement our Company entered into with certain Pre-**[REDACTED]** investors, pursuant to which our Company issued and sold to these investors a total number of 157,626,890 ordinary shares, at a par value of US$0.00001 of each share, for a consideration of US$1,576.2689 in April 2022.

Certain production lines of our Luohe Xinglin Plant have been put into operation for tests and trials since May 2022. In addition, in March 2022, we entered into a land use right transfer agreement for a parcel of land with an area of 139,496.00 sq.m. with the local government in Yunnan Province. In September 2022, we entered into a land use right transfer agreement for a parcel of land with an area of 17,399.00 sq.m. with the local government in Yunnan Province. As of the Latest Practicable Date, we had paid the full consideration of the land use right to the local government and are in the process of registrating a land ownership certificate for such land which will be used for our Yunnan Qujing Plant.

As the leader in spicy snack industry with accumulated industry experience, expertise and advanced level of R&D, we worked with the CIFST and other academic institutes and associations in drafting the Industry Standards for Seasoned Flour Products (QB/T 5729-2022), which was promulgated by the Ministry of Industry and Information Technology on April 24, 2022 and came into effect on October 1, 2022. In July 2022, we assisted the CIFST to host a seminar discussing the abovementioned industry standards, which provided guidance for the development of the industry in the long term. The new standard will significantly reduce the number of varieties of food additives and lower the content of salt and oil in seasoned flour products, and is expected to raise entry barriers to the players in the industry. Leading players with higher operating standards could benefit from the rising industry standard and gain more market share in the future.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, save for the above, there has been no material adverse change in our financial or trading position or prospects since June 30, 2022, being the end date of the periods reported on in the Accountant's Report in Appendix I to this document, and there is no event since June 30, 2022 that would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit or loss.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4 of Appendix I to this document.

All effective standards, amendments to standards and interpretations, including IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which are mandatory for the financial year beginning January 1, 2018 and IFRS 16 Leases ("IFRS 16") which is mandatory for the financial year beginning January 1, 2019, are consistently applied to our Group throughout the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, including the following:

Consumer Demand

We are a leading spicy snack food company committed to turning authentic Chinese gourmet into casual snack food that consumers can enjoy anywhere and anytime. Our results of operations are largely depended on consumer demand for snack foods with authentic Chinese flavor, which is affected by the evolving consumers' preferences and tastes. According to Frost & Sullivan, demand from young Chinese consumers for snack food products has been growing continuously during the past five years. From 2016 to 2021, the spicy snack food market in China in which we operated grew at a CAGR of 8.7%, which was higher than the CAGR of 6.1% for the snack food market. For more details, see "Industry Overview – Overview of China's Snack Food Industry."

Our business depends on our deep understanding of evolving consumer preferences. Consumer preferences may shift due to a variety of factors, including changes of dietary habits, pace of life and consumption trends. As a leading brand in the spicy snack food industry in China, our strong research and development capabilities have enabled us to continuously launch entertaining, casual, convenient and affordable snack food products with considerable popularity.

We believe that our continuous deep focus on consumers' demand has helped us attract and retain a loyal group of consumers and position us as a renowned spicy snack food company in China and is critical to our ability to further grow our business.

Product Mix

With our commitment of turning authentic Chinese gourmet into casual snack food, we continue to expand our product mix. Our present product mix primarily includes seasoned flour products, vegetable products, and bean-based and other products. Under each product category, we sell products with different flavors or package sizes to satisfy various consumer demands. See "Business – Our Brand and Products." Typically, different products vary in retail prices, raw materials, package formats and sales channels and thus have different gross margins. In addition, our seasoned flour products are further classified into classic packaging and premium packaging products in order to implement our product positioning and business strategies. Each of our products has its own unique positioning with different marketing strategies and promotional costs. As a result, our revenue and profitability are largely affected by our product mix.

We believe that our increasingly diverse product mix enables us to respond to changing market conditions and consumer preferences quickly. We have been optimizing our product mix in an effort to facilitate our revenue and profitability. For example, our newly-launched vegetable products gained wide attraction in the market and fueled our revenue and profit growth during the Track Record Period.

The table below sets forth our revenue and gross profit margins of our key product categories during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue (RMB'000)	Gross margin(%)	Revenue (RMB'000)	Gross margin(%)	Revenue (RMB'000)	Gross margin(%)	Revenue (RMB'000)	Gross margin (%)	Revenue (RMB'000)	Gross margin(%)
							(unaudited)			
Seasoned flour products	2,474,574	37.2	2,690,287	37.6	2,918,039	35.9	1,401,128	35.3	1,341,422	34.8
Vegetable products	664,959	37.2	1,167,541	39.3	1,664,120	39.9	792,962	39.3	817,624	43.2
Bean-based and other products	245,233	35.4	262,529	36.3	218,041	37.9	108,752	40.7	101,483	40.4
Total	**3,384,766**	**37.1**	**4,120,357**	**38.0**	**4,800,200**	**37.4**	**2,302,842**	**36.9**	**2,260,529**	**38.1**

Also see "– Description of Major Components of Our Results of Operations – Gross Profit."

Distribution Network

We have established a nationwide sales and distribution network by fully integrating our online and offline resources in order to ensure consumers' easy access to our products and distribution.

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we generated 92.6%, 90.7%, 88.5%, 88.3% and 89.4% of our revenue from our offline distributors, respectively. We have a nationwide offline sales and distribution network that deeply penetrates the Chinese market. As of June 30, 2022, we cooperated with more than 1,830 offline distributors and our distributors' sales network covered approximately 735,000 retail points of sale in China, with significant potential for future channel expansion. During the Track Record Period, we significantly expanded the coverage of our distribution network on a nationwide basis and further upgraded the structure of our sales channels from traditional channels, towards modern channels, such as national or regional hypermarkets, supermarkets and chained convenience stores.

We benefit from our well-established business relationships with our distributors. We regularly conduct evaluations on our distributors' performance, such as requesting for submission of inventory level and sales reports. With our proprietary sales management system, we are able to more effectively monitor our distributors and the inventory level and sales situations at retail points of sale. See "Business – Our Sales Channel."

In addition, as an essential complement to our offline distributors, our products are available and sold to consumers on a growing number of e-commerce platforms to adapt to changing consuming trends. During the Track Record Period, we gradually increased efforts on our self-operated online stores for better control of online sales and got familiar with online consumers' demand on an independent basis. Our revenue from online distribution increased by 60.2% from RMB144.0 million in 2019 to RMB230.7 million in 2020 and further increased by 31.0% to RMB302.3 million in 2021, and decreased by 23.3% from RMB153.6 million in the six months ended June 30, 2021 to RMB117.9 million in the six months ended June 30, 2022. Our revenue from online direct sales increased by 41.5% from RMB106.8 million in 2019 to RMB151.1 million in 2020 and further increased by 66.4% to RMB251.5 million in 2021, and increased by 5.8% from RMB114.8 million in the six months ended June 30, 2021 to RMB121.5 million in the six months ended June 30, 2022.

We believe our ability to grow our business will depend on whether we can continue to expand our sales and distribution network to connect with more consumers and to provide them easy access to our products.

Costs of Raw Materials and Packaging Materials

We have exposure to fluctuations in the prices of raw materials and packaging materials, each of which may have impact on our cost of sales of goods or distribution expenses. Increased costs or distribution expenses will reduce our profit margins if we are unable to pass on these additional costs from our customers through higher prices.

The main raw materials used in our products are soybean oil, flour and konjac. In addition to these inputs into our products, delivery of our products to distributors requires extensive use of packaging materials, such as cardboard boxes and packaging bags. The price of most of our raw materials and packaging materials generally fluctuates according to the market conditions such as movement of global oil price and the COVID-19 impact. We have not entered into any hedging activities in relation to their prices. However, we monitor the supply and cost trends of these raw materials and packaging materials and have sought to mitigate the impact of price fluctuations to us. For example, as the supply of certain raw materials are seasonal, we usually purchase these raw materials in advance from their places of origin during their harvest season according to our scheduled production plans and expected customer demand.

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, the cost of raw materials accounted for 29.8%, 27.8%, 29.8%, 30.2% and 30.7% of our total revenue, respectively, and the cost of packaging materials accounted for 14.7%, 13.5%, 14.0%, 14.1% and 12.9% of our total revenue, respectively.

Our ability to further increase our production capacity

During the Track Record Period, the utilization rate at each of our four production plants fluctuated, as a result of changes in the actual production volume at each of our production plants, which corresponds to changes in market demand and gradual increases in our designed production volume. Our ability to further increase our production capacity is critical to supporting our stable and continuous business growth, which involves additional costs and uncertainties. For example, revenue from our kelp products increased significantly in 2020 and 2021, primarily because we expanded the production lines for such products. In addition, to manage and strengthen our production capacity, we plan to build new production plants, upgrade our existing production equipment, develop more production lines and improve our production process. See "Future Plans and Use of **[REDACTED]**." In all, our revenue and results of operations in the future may rely on our ability to further increase our production capacity to cater for the market demand. See "Business – Our Production."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgements related to accounting items. The estimates and assumptions we use and the judgements we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgements based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgements used in the preparation of our financial statements. See notes 2 and 3 of Appendix I to this document for details of the critical accounting policies, estimates, assumptions and judgements involved in the preparation of our financial statements.

Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. No significant element of financing is deemed present as the sales are made with a prepayment or a credit term up to 90 days, which is consistent with market practice.

Sale of goods

Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally upon the acceptance of the goods. The costs of transporting finished goods to a customer are recognized in distribution and selling expenses when occurred.

Some contracts for the sale of goods provide customers with rights of return, volume rebates and trade incentive. The rights of return, volume discounts and trade incentive give rise to variable consideration.

Rights of return

For contracts which provide a customer with a right of return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which our Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a liability is recognized. A right of return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

Variable consideration: volume discounts

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

Trade incentive – co-advertising services

We may enter into agreements with our customers in relation to product advertising and promotion, under which the customers will be entitled to an advertising allowance. If no distinct service can be identified, the amounts due by us to our customers would be deducted from revenue.

Contract liabilities

A contract liability is recognized when a payment is received, or a payment is due (whichever is earlier) from a customer before we transfer the related goods. Contract liabilities are recognized as revenue when we satisfied the performance obligation under the contract (i.e., transfers control of the related goods to the customer).

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where our Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where our Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Investments and other financial assets

Classification

Our Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether our Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

We reclassify debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which our Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and our Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at financial assets at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- **Level 1**: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by us is the current bid price;

- **Level 2**: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and

- **Level 3**: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of December 31, 2019, 2020, 2021 and June 30, 2022, our wealth management products, structured deposits and investment in fund management products were measured at fair value using level 3 inputs. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including the use of quoted market prices or dealer quotes for similar instruments, and the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate. For details, see note 3.3 to the Accountant's Report in Appendix I to this document.

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which our Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

Our Group subsequently measures all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

Our Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, impairment is measured as lifetime expected loss.

For other receivables, impairment is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for a separate asset is de-recognized when replaced. All other repairs and maintenance are charged to the consolidated statements of profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line depreciation method to allocate their cost, net of their residual values over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

(i) Buildings: 20 years;

(ii) Machinery: 10 years;

(iii) Vehicles: three-five years;

(iv) Furniture and office equipment: five years;

(v) Electronic equipment: three years; and

(vi) Building improvement and decoration: three years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See note 2.9 of Appendix I of this document.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses), net" in the statement of profit or loss.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets out a summary of our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Revenue from contracts with customers	3,384,766	4,120,357	4,800,200	2,302,842	2,260,529
Cost of sales of goods	(2,130,463)	(2,554,692)	(3,007,169)	(1,453,138)	(1,398,981)
Gross profit	1,254,303	1,565,665	1,793,031	849,704	861,548
Distribution and selling expenses	(281,265)	(370,975)	(520,613)	(262,610)	(269,487)
Administrative expenses	(138,204)	(201,096)	(359,110)	(140,446)	(220,704)
Net impairment (losses)/gains on financial assets	—	(600)	(303)	—	343
Other income, net	35,148	58,841	152,666	16,221	59,909
Other (losses)/gains, net	(1,744)	31,427	11,715	2,490	(598,655)
Operating profit/(loss)	868,238	1,083,262	1,077,386	465,359	(167,046)
Finance income	107	481	24,782	7,865	31,704
Finance costs	(3,215)	(5,785)	(5,536)	(1,967)	(7,971)
Finance (costs)/income, net	(3,108)	(5,304)	19,246	5,898	23,733
Share of net profit of associate accounted for using the equity method	1,378	379	—	—	—
Profit/(loss) before income tax	866,508	1,078,337	1,096,632	471,257	(143,313)
Income tax expense	(208,409)	(259,573)	(269,903)	(113,671)	(117,517)
Profit/(loss) for the year/period	658,099	818,764	826,729	357,586	(260,830)

Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit (Non-IFRS measure) as additional financial measure, which is not required by, or presented in accordance with IFRS. We believe this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items.

We believe this measure provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as it helped our management. However, our presentation of adjusted net profit (Non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit (Non-IFRS measure) as net profit/(loss) for the year/period adjusted by adding back share-based payment expenses and **[REDACTED]**. The following table reconciles our adjusted net profit (Non-IFRS measure) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which is net profit for the period:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Reconciliation of net profit/(loss) to adjusted net profit (Non-IFRS measure)					
Profit/(loss) for the year/period	658,099	818,764	826,729	357,586	(260,830)
Add:					
Share-based payment to employees [(1)]	—	—	50,519	8,308	49,107
[REDACTED] expenses [(2)]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
One-off share-based payments related to Pre-**[REDACTED]** Investments [(3)]	—	—	—	—	628,811
Adjusted net profit (Non-IFRS measure) [(4)]	**659,004**	**821,221**	**907,750**	**379,644**	**424,892**

(1) Share-based payment to employees, which is non-cash in nature mainly represent the arrangement that we receive services from employees as consideration for our equity instruments.

(2) **[REDACTED]** expenses mainly relate to the **[REDACTED]** .

(3) One-off share-based payments related to Pre-**[REDACTED]** Investments refer to the supplemental agreement of share purchase agreement our Company entered into with certain Pre-**[REDACTED]** investors, pursuant to which our Company issued and sold to these investors a total number of 157,626,890 ordinary shares, at a par value of US$0.00001 of each share, for a consideration of US$1,576.2689 in April 2022.

Revenue

Revenue by product

During the Track Record Period, our revenue was primarily derived from the sales of seasoned flour products and vegetables products. The table below sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Seasoned flour products	2,474,574	73.1	2,690,287	65.3	2,918,039	60.8	1,401,128	60.9	1,341,422	59.3
– premium-packaging products	1,272,401	37.6	1,423,713	34.6	1,592,659	33.2	729,842	31.7	780,306	34.5
– classic-packaging products	1,202,173	35.5	1,266,574	30.7	1,325,380	27.6	671,286	29.2	561,116	24.8
Vegetable products	664,959	19.6	1,167,541	28.3	1,664,120	34.7	792,962	34.4	817,624	36.2
Bean-based and other products	245,233	7.3	262,529	6.4	218,041	4.5	108,752	4.7	101,483	4.5
Total	**3,384,766**	**100.0**	**4,120,357**	**100.0**	**4,800,200**	**100.0**	**2,302,842**	**100.0**	**2,260,529**	**100.0**

Our total revenue showed an increasing trend from 2019 to 2021 and slightly decreased in the six months ended June 30, 2022 compared with that of the same period in 2021. Revenue from our seasoned flour products increased by 8.7% from RMB2,474.6 million in 2019 to RMB2,690.3 million in 2020 and further increased by 8.5% to RMB2,918.0 million in 2021, primarily due to (i) increasing market demand as a result of greater recognition among consumers; (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020 and further increased to 623 as of December 31, 2021. Revenue generated from our seasoned flour products decreased by 4.3% from RMB1,401.1 million in the six months ended June 30, 2021 to RMB1,341.4 million in the six months ended June 30, 2022, primarily due to (i) the impact on our production and delivery from the COVID-19 Resurgence, and (ii) the temporary impact on sales volume due to the price adjustment resulted from our recent product upgrade launched in our major product categories with new packages, production techniques, ingredients or specifications in the first half of 2022, which took time for our customers to adapt to. Revenue from the sales of premium packaging products, both in the absolute amount and as a percentage of total revenue, was higher than that from the sales of classic packaging products during the Track Record Period. Revenue from our seasoned flour products as a percentage of our total revenue decreased from 73.1% in 2019 to 65.3% in 2020 and further to 60.8% in 2021, and decreased from 60.9% during the six months ended June 30, 2021 to 59.3% during the same period in 2022, reflecting our more diversified product mix following the significant growth of the sales volume of vegetable products. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue from our vegetable products accounted for 19.6%, 28.3%, 34.7%, 34.4% and 36.2% of our total revenue, respectively. Our revenue from vegetable products grew both in absolute amount and as a percentage of our total revenue in 2019, 2020, and 2021, and from the six months ended June 30, 2021 to the same period in 2022, as the market demand for such products increased and we continued to expand our production capacity for such products during the same periods.

The table below sets forth a breakdown of our sales volume and average selling price per kg by product category for the periods indicated:

		Year ended December 31,			Six months ended June 30,	
		2019	2020	2021	2021	2022
Seasoned flour products	ton	173,296.0	179,511.4	193,598.6	94,669.9	81,588.7
	RMB/kg	14.3	15.0	15.1	14.8	16.4
Vegetable products	ton	24,130.1	41,585.4	60,699.3	29,003.5	27,861.4
	RMB/kg	27.6	28.1	27.4	27.3	29.3
Bean-based and other products	ton	11,378.9	10,161.0	7,212.7	3,665.8	2,943.4
	RMB/kg	21.6	25.8	30.2	29.7	34.4

Our sales volume of the seasoned flour products showed an increasing trend from 2019 to 2021 and decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022. The sales volume of our seasoned flour products was generally in line with its revenue scales during the Track Record Period. The continued increases in the sales volume of our seasoned flour products from 2019 to 2021 were attributable to a combination of (i) our enhanced product and brand recognition; and (ii) an expansion of our distribution network across China with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020 to 623 as of December 31, 2021, and the decrease in sales volume of our seasoned flour products from the six months ended June 30, 2021 to the six months ended June 30, 2022 was primarily in relation to (i) the impact on our production and delivery from the Resurgence of COVID-19, and (ii) the temporary impact due to the price adjustment resulted from our recent product upgrade launched in our major product categories with new packages, production techniques, ingredients or specifications in the first half of 2022, which took time for our customers to adapt to.

Our sales volume of the vegetable products showed an increasing trend from 2019 to 2021 and decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022. The increase in the sales volume of our vegetable products from 2019 to 2021, which was generally in line with the increase in its revenue scales during the same period, was mainly the results of (i) an increase in the market demand for such products;

(ii) an expansion of our distribution network and an increase of distribution coverage of such products; and (iii) an increase in our production capacity for such products with the designed production capacity for vegetable products increased from 24,756.2 tons in 2019 to 45,936.0 tons in 2020 and further increased to 79,992.0 tons in 2021, and the decrease in sales volume of our vegetable products from the six months ended June 30, 2021 to the six month ended June 30, 2022 was primarily in relation to (i) the impact on our production and delivery from the Resurgence of COVID-19, and (ii) the temporary impact due to the price adjustment resulted from our recent product upgrade launched in our major product categories with new packages, production techniques, ingredients or specifications in the first half of 2022, which took time for our customers to adapt to. See "Business – Our Sales Channel – Offline Channels."

The decrease in the sales volume of our bean-based and other products from 2019 to 2021 was mainly because (i) we adopted a new packaging design for our bean-based products, and it took time for consumers to become familiar with our new design, and (ii) we discontinued certain such products to optimize the product mix and from the six months ended June 30, 2021 to the six months ended June 30, 2022 primarily due to (i) the impact on our production and delivery from the COVID-19 Resurgence, and (ii) our optimization of marketing resource allocation which reduced marketing activities for certain of our bean based and other products.

Revenue by sales channel

The table below sets forth our revenue by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Offline channels	3,133,928	92.6	3,738,582	90.7	4,246,420	88.5	2,034,446	88.3	2,021,169	89.4
Online channels	250,838	7.4	381,775	9.3	553,780	11.5	268,396	11.7	239,360	10.6
– Online distribution	144,034	4.2	230,677	5.6	302,289	6.3	153,590	6.7	117,861	5.2
– Online direct sales	106,804	3.2	151,098	3.7	251,491	5.2	114,806	5.0	121,499	5.4
Total	**3,384,766**	**100.0**	**4,120,357**	**100.0**	**4,800,200**	**100.0**	**2,302,842**	**100.0**	**2,260,529**	**100.0**

During the Track Record Period, we generated revenue from offline channels and online channels (including online distribution and online direct sales). Our revenue from offline channels contributed a significant portion of our total revenue, and revenue from this sales channel continued to increase during the Track Record Period. Our revenue from offline distributors was partially offset by volume discounts and the co-advertising allowance paid to our offline distributors. Our volume discounts were mainly determined by the purchase amount of our distributors and our discount policy adjusted according to the market condition and product type. Our co-advertising allowance was mainly determined by the fulfillment progress of the advertising targets and the marketing expenses incurred by our distributors. See note 2.23 in the Accountant's report in Appendix I to this document. On the other hand, our revenue generated from online channels increased by 52.2% from 2019 to 2020, and compared to our offline distributors, such online sales channels grew at a faster pace in 2020 due to our increased efforts to develop our online direct sales channel and the accelerated adaptation to online shopping by consumers during the COVID-19 pandemic. Our revenue generated from online channels increased by 45.1% from 2020 to 2021, among which our revenue generated from online direct sales increased by 66.4% from RMB151.1 million in 2020 to RMB251.5 million in 2021, and our revenue generated from online distribution increased by 31.0% from RMB230.7 million in 2020 to RMB302.3 million in 2021, primarily due to a growth in both online direct sales and online distribution resulting from our increasing online advertising activities and cooperation with new e-commerce platforms in 2021. Our revenue generated from online direct sales grew at a faster pace in 2021 as compared to online distribution, primarily due to an increase in products directly sold to consumers through our self-operated online stores as a result of (i) our increased advertising and promotion efforts on our self-operated online stores, and (ii) our cooperation with new e-commerce platforms such as Douyin and Kuaishou in 2021. Our revenue generated from online direct sales increased by 5.8% from RMB114.8 million in the six months ended June 30, 2021 to RMB121.5 million in the same period in 2022. Our revenue generated from online distribution decreased by 23.3% from RMB153.6 million in the six months ended June 30, 2021 to RMB117.9 million in the same period in 2022.

Revenue by geographic location

The table below sets forth a breakdown of revenue contribution as a percentage of our total revenue from offline distributors by geographic location of the offline distributor's registered office during the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Eastern China	643,417	20.6	771,855	20.7	900,102	21.2	437,826	21.5	435,563	21.6
Central China	622,002	19.8	733,724	19.6	867,891	20.4	414,807	20.4	385,760	19.1
Northern China	594,036	19.0	630,655	16.9	690,145	16.3	340,165	16.7	314,310	15.6
Southern China	509,064	16.2	637,186	17.0	708,449	16.7	344,892	17.0	349,269	17.3
Southwestern China	389,107	12.4	475,410	12.7	508,582	12.0	239,139	11.8	247,041	12.2
Northwestern China	376,302	12.0	489,752	13.1	551,455	12.9	257,563	12.6	264,079	13.0
Overseas[1]	—	—	—	—	19,796	0.5	54	0.0	25,147	1.2
Total	**3,133,928**	**100.0**	**3,738,582**	**100.0**	**4,246,420**	**100.0**	**2,034,446**	**100.0**	**2,021,169**	**100.0**

(1) Revenue contributed overseas is from offline distributors registered overseas.

During the Track Record Period, we generated relatively balanced revenue from offline distributors in different geographic areas in China. The geographic distribution of our domestic revenue is generally in line with the economic development and population of different regions in China. Revenue generated overseas increased significantly from the six months ended June 30, 2021 to the same period in 2022 due to our engagement of more distributors to start to penetrate the overseas market.

Cost of Sales of Goods

Our cost of sales of goods primarily consists of (i) raw materials, mainly raw materials for our production, such as soybean oil, flour and konjac; (ii) packaging materials, mainly including cardboard boxes and packaging bags; (iii) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to our manufactory staff; (iv) cost for purchasing OEM products, mainly the cost for purchasing finished products from OEM suppliers to diversify our product mix and supplement our production capacity; and (v) manufacturing overheads, which represent utilities, depreciation and amortization, and repairs and maintenance relating to our production.

The table below sets forth a breakdown of the components of our cost of sales of goods and as percentages of our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
							(unaudited)			
Raw materials	1,008,995	29.8	1,145,423	27.8	1,429,420	29.8	697,725	30.2	693,700	30.7
Packaging materials	496,801	14.7	557,517	13.5	673,915	14.0	324,058	14.1	291,187	12.9
Employee benefit expenses	283,290	8.4	358,489	8.7	348,053	7.2	178,572	7.8	142,952	6.3
Cost for purchasing OEM products	195,307	5.8	302,574	7.3	312,115	6.5	144,407	6.3	154,765	6.8
Manufacturing overheads	99,086	2.9	138,587	3.4	191,394	4.0	85,901	3.7	96,881	4.3
Tax surcharges and others	46,984	1.3	52,102	1.3	52,272	1.1	22,475	1.0	19,496	0.9
Total	**2,130,463**	**62.9**	**2,554,692**	**62.0**	**3,007,169**	**62.6**	**1,453,138**	**63.1**	**1,398,981**	**61.9**

Gross Profit

The table below sets forth a breakdown of our gross profit and gross margin by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Seasoned flour products	920,009	37.2	1,012,162	37.6	1,046,962	35.9	494,195	35.3	467,013	34.8
Vegetable products	247,574	37.2	458,302	39.3	663,403	39.9	311,238	39.3	353,561	43.2
Bean-based and other products	86,720	35.4	95,201	36.3	82,666	37.9	44,271	40.7	40,974	40.4
Total	**1,254,303**	**37.1**	**1,565,665**	**38.0**	**1,793,031**	**37.4**	**849,704**	**36.9**	**861,548**	**38.1**

Our total gross profit showed an increasing trend during the Track Record Period primarily as the result of the continuous increase in gross profit from vegetable products during the Track Record Period and the increase in gross profit from seasoned flour products from 2019 to 2021. Gross profit from our vegetable products increased by 85.1% from RMB247.6 million in 2019 to RMB458.3 million in 2020, primarily due to an increase in the sales volume and changes of product mix of such products, as driven by the increasing market demand. Gross profit from our vegetable products increased by 44.8% from RMB458.3 million in 2020 to RMB663.4 million in 2021, primarily due to (i) an increase in the sales volume; (ii) a decrease in employee benefit expenses relating to our manufactory staff as a result of the improvement of production process and automation of Luohe Weidao Plant in 2021; and (iii) the decrease in the purchase price of packaging materials of such products. Gross profit from our vegetable products increased by 13.6% from RMB311.2 million during the six months ended June 30, 2021 to RMB353.6 million during the same period in 2022, primarily due to (i) an increase in average selling price of part of our vegetable products; and (ii) the decrease in purchase price of certain of our vegetable raw materials. Gross profit from our seasoned flour products increased by 10.0% from RMB920.0 million in 2019 to RMB1,012.2 million in 2020 and further increased by 3.4% to RMB1,047.0 million in 2021, primarily due to the increased revenue from such products. Gross profit from our seasoned flour products decreased by 5.5% from RMB494.2 million during the six months ended June 30, 2021 to RMB467.0 million during the same period in 2022 primarily due to a decrease in sales volume.

Distribution and Selling Expenses

Our distribution and selling expenses are primarily related to the enhancement of our offline and online sales and distribution network. Our distribution and selling expenses primarily consist of (i) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to marketing staff; (ii) transportation expenses, primarily representing transportation expenses relating to the transportation of our finished products to our customers; and (iii) promotion and advertising expenses relating to both online and offline advertising activities, mainly including online platform promotion expenses.

The table below sets forth a breakdown of the components of our distribution and selling expenses and as percentages of our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue	RMB'000	% of total revenue
Employee benefit expenses	93,479	2.8	135,094	3.3	220,478	4.6	118,255	5.1	111,424	4.9
Transportation expenses	127,084	3.8	148,224	3.6	164,927	3.4	80,190	3.5	73,336	3.2
Promotion and advertising expenses	30,820	0.9	46,658	1.1	78,679	1.6	34,727	1.5	36,929	1.6
Other distribution and selling expenses(1)	29,882	0.8	40,999	1.0	56,529	1.2	29,438	1.3	47,798	2.2
Total	**281,265**	**8.3**	**370,975**	**9.0**	**520,613**	**10.8**	**262,610**	**11.4**	**269,487**	**11.9**

(1) Other distribution and selling expenses primarily include professional fees, travelling expenses and office expenses.

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to administrative staff; (ii) depreciation and amortization, relating to our office buildings and equipment; (iii) office and travel expenses, which represent expenses incurred for office use and business travel of our staff; (iv) research and development expenses, primarily representing expenses incurred for our internal research and development activities and expenses to third-party companies which collaborate with us in research and development activities; and **[REDACTED]** expenses.

The table below sets forth a breakdown of the components of our administrative expenses and as percentages of our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
							(unaudited)			
Employee benefit expenses	87,895	2.6	131,128	3.2	218,467	4.6	88,168	3.9	142,422	6.3
Office and travel expenses	11,868	0.4	18,572	0.5	25,903	0.5	10,293	0.4	16,380	0.7
Depreciation and amortization	11,467	0.3	15,422	0.4	34,918	0.7	12,325	0.5	23,245	1.1
Research and development expenses	573	0.0	3,376	0.1	5,497	0.1	—	—	6,934	0.3
[REDACTED] expenses(1)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other administrative expenses(2)	25,496	0.8	30,141	0.7	43,823	1.0	15,910	0.7	23,919	1.1
Total	**138,204**	**4.1**	**201,096**	**4.9**	**359,110**	**7.5**	**140,446**	**6.1**	**220,704**	**9.8**

(1) **[REDACTED]** expenses in 2019 mainly represent the fee paid to auditor. **[REDACTED]** expenses in 2020, 2021, and the six months ended June 30, 2022 mainly represent fees paid to auditor, lawyers and the specialists for internal control.

(2) Other administrative expenses primarily include professional fees and expenses for repairs and maintenance and utilities.

Other Income, Net

Our other income primarily consist of (i) government grants from government authorities as rewards for our contribution to the local economic growth; (ii) net sales of scraps and raw materials; and (iii) VAT reduction.

A significant portion of government grants received by our Company during the Track Record Period came from the Administration Committee of Luohe Economic and Technological Development Zone. These government grants mainly include subsidies as rewards to our contribution to the local economy, as well as our investment in production capacity expansion. Our Company has obtained approval documents issued by competent authorities or signed relevant agreements with competent authorities for the above-mentioned government grants. According to the confirmation and related policy documents issued by the relevant competent authority, our PRC Legal Advisors confirmed that the relevant competent authority had the requisite authority, and had obtained proper approvals, for providing the aforesaid government grants to us during the Track Record Period in all material aspects.

The following table sets out a breakdown of the major components of our other income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) *(unaudited)*	(RMB'000)
Government grants					
Related to income	24,706	46,145	130,988	6,767	50,092
Related to assets	426	3,260	3,525	1,898	1,941
Sale of scraps and raw materials, net	10,016	9,436	16,162	7,556	6,956
VAT reduction	—	—	1,991	—	920
Total	**35,148**	**58,841**	**152,666**	**16,221**	**59,909**

Other (Losses)/Gains, net

Our other net other gains/losses primarily consist of (i) fair value gains on financial assets at fair value through profit or loss relating to the purchase of wealth management products and structured deposit; (ii) loss on disposal of property, plant and equipment; (iii) impairment of property, plant and equipment; (iv) net foreign exchange losses and gains; (v) one-off share-based payments related to Pre-**[REDACTED]** Investments; and (vi) donation.

The following table sets out a breakdown of the major components of our other gains and losses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) *(unaudited)*	(RMB'000)
Fair value gains on financial assets at fair value through profit or loss	13,978	36,597	27,416	13,240	22,711
Loss on disposal of property, plant and equipment	(7,990)	(2,901)	(1,647)	(1,256)	(1,704)
Donation	(620)	(1,660)	(11,695)	(1,300)	(648)
Gain on disposal of a subsidiary	—	149	—	—	—
Loss on disposal of an investment accounted for using the equity method	—	(1,677)	—	—	—
One-off share-based payments related to Pre-**[REDACTED]** Investments	—	—	—	—	(628,811)
Settlement loss related to foreign exchange forward contract	—	—	—	—	(5,238)
Net foreign exchange (losses)/gains	(3)	(279)	(6,148)	(9,280)	12,285
Impairment of property, plant and equipment	(5,717)	—	—	—	—
Net impairment loss on other non-current assets	(1,175)	—	(76)	(76)	—
Others	(217)	1,198	3,865	1,162	2,750
Total	**(1,744)**	**31,427**	**11,715**	**2,490**	**(598,655)**

Finance Income and Finance Costs

Our finance income consists of interest from bank. Our finance costs consist of (i) interest expense on bank borrowings; (ii) finance cost on lease liabilities; and partially offset by (iii) borrowing costs capitalized in property, plant and equipment. We recorded RMB3.1 million and RMB5.3 million in net finance costs in 2019 and 2020, respectively, primarily in relation to our interest expense on bank borrowings, compared to RMB19.2 million in net finance income in 2021, primarily due to the increase in interests from bank mainly in relation to our increased term deposits with initial term over three months. Our net finance income significantly increased from RMB5.9 million in the six months ended June 30, 2021 to RMB23.7 million in the six months ended June 30, 2022, primarily due to the increase in interests from bank mainly in relation to our holdings of term deposits with initial term over three months.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Finance income:				*(unaudited)*	
Interests from bank	107	481	24,782	7,865	31,704
Finance costs:					
Interest expense on bank borrowings	(3,591)	(9,070)	(9,730)	(3,850)	(9,835)
Finance cost on lease liabilities	(1,462)	(895)	(694)	(295)	(297)
less: borrowing costs capitalized in property, plant and equipment	1,838	4,180	4,888	2,178	2,161
Finance costs	**(3,215)**	**(5,785)**	**(5,536)**	**(1,967)**	**(7,971)**
Finance (costs)/income, net	**(3,108)**	**(5,304)**	**19,246**	**5,898**	**23,733**

Income Tax Expense

We incurred income tax expense of RMB208.4 million, RMB259.6 million, RMB269.9 million, RMB113.7 million and RMB117.5 million in 2019, 2020, 2021 and the six months ended June 30, 2021, and 2022 respectively, with an effective income tax rate of 24.1%, 24.1%, 24.6% and 24.1% in 2019, 2020, 2021 and the six months ended June 30, 2021, respectively. Our tax expense represented 24.2% of the sum of loss before income tax and one-off share-based payments related to Pre-**[REDACTED]** Investments during the six months ended June 30, 2022. The statutory Enterprise Income Tax ("EIT") rate for our businesses in China is 25%, while our subsidiaries, Lewei Seasoning Processing and Lewei Agricultural Foods Processing are partially exempted from tax under relevant Chinese laws and regulations as it is engaged in preliminary processing of agricultural products. Our effective income tax rates are mainly affected by, in addition to applicable EIT rates, among other things, tax-free profits of the companies under our Group which engaged in preliminary processing of agricultural products; and As of the Latest Practicable Date, we did not have any material disputes with tax authorities.

RESULTS OF OPERATIONS

The six months ended June 30, 2022 Compared to the six months ended June 30, 2021

Revenue

Our revenue slightly decreased by 1.8% from RMB2,302.8 million in the six months ended June 30, 2021 to RMB2,260.5 million in the six months ended June 30, 2022, primarily due to the decrease in our revenue generated from sales of seasoned flour products.

Seasoned flour products

Revenue from seasoned flour products decreased by 4.3% from RMB1,401.1 million in the six months ended June 30, 2021 to RMB1,341.4 million in the six months ended June 30, 2022, primarily due to a decrease in the sales volume of seasoned flour products mainly in relation to (i) the impacts on our production and delivery from the COVID-19 Resurgence, and (ii) the temporary impact on sales volume due to the price adjustment resulted from our recent product upgrade launched in our major product categories with new packages, production techniques, ingredients or specifications in the first half of 2022, which took time for our customers to adapt to.

Vegetable products

Revenue from vegetable products increased by 3.1% from RMB793.0 million in the six months ended June 30, 2021 to RMB817.6 million in the six months ended June 30, 2022, primarily due to an increase in the average selling price per kg of 7.3% from RMB27.3 in the six months ended June 30, 2021 to RMB29.3 in the six months ended June 30, 2022, as the result of our recent product upgrade in our major product categories with new packages, production techniques, ingredients or specifications launched in the first half of 2022, which was partially offset by the slight decrease in the sales volume as it took time for customers to adapt to the respective price adjustment.

Bean-based and other products

Revenue from bean-based and other products decreased by 6.7% from RMB108.7 million in the six months ended June 30, 2021 to RMB101.5 million in the six months ended June 30, 2022, primarily due to a decrease in the sales volume mainly in relation to (i) the impact on our production and delivery from the COVID-19 Resurgence, and (ii) our optimization of marketing resource allocation which reduced marketing activities for certain of our bean-based and other products.

Cost of sales of goods

Our cost of sales of goods decreased by 3.7% from RMB1,453.1 million in the six months ended June 30, 2021 to RMB1,399.0 million in the six months ended June 30, 2022, primarily due to decrease in sales volume of our products.

Gross profit and gross margin

Our gross profit increased by 1.4% from RMB849.7 million in the six months ended June 30, 2021 to RMB861.5 million in the six months ended June 30, 2022, primarily due to the increase in gross profit from vegetable products, partially offset by the decrease in gross profit from seasoned flour products. Our gross profit margin increased from 36.9% in the six months ended June 30, 2021 to 38.1% in the six months ended June 30, 2022 primarily due to the increased selling prices of our products.

- Gross profit from seasoned flour products decreased by 5.5% from RMB494.2 million in the six months ended June 30, 2021 to RMB467.0 million in the six months ended June 30, 2022, mainly due to the decrease in revenue generated from sales of the seasoned flour products while the gross margin from seasoned flour products was 35.3% and 34.8% in the six months ended June 30, 2021 and in the six months ended June 30, 2022, respectively, which remained relatively stable reflecting the negative impact on our gross profit margin from the increase of purchase price for certain of our raw materials largely offset by the positive impact on our gross profit margin from our price adjustment.

- Gross profit from vegetable products increased by 13.6% from RMB311.2 million in the six months ended June 30, 2021 to RMB353.6 million in the six months ended June 30, 2022, mainly due to the increase in the revenue generated from vegetable products and the increase in the gross margin, which increased, from 39.3% in the six months ended June 30, 2021 to 43.2 % in the six months ended June 30, 2022, mainly due to (i) an increase in the average selling price of part of our vegetable products; and (ii) the decrease in purchase price of certain of our vegetable raw materials.

- Gross profit from bean-based and other products decreased by 7.4% from RMB44.3 million in the six months ended June 30, 2021 to RMB41.0 million in the six months ended June 30, 2022, mainly due to the decrease in revenue generated from sales of bean-based and other products, while the gross margin from bean-based and other products was 40.7% and 40.4% in the six months ended June 30, 2021 and 2022, respectively.

Distribution and Selling expenses

Our distribution and selling expenses were RMB262.6 million and RMB269.5 million in the six months ended June 30, 2021 and 2022, which remained relatively stable, reflecting an increase in our professional fees largely offset by a decrease in employee benefits and transportation expenses.

Administrative expenses

Our administrative expenses increased by 57.1% from RMB140.4 million in the six months ended June 30, 2021 to RMB220.7 million in the six months ended June 30, 2022, mainly due to an increase in employee benefit expenses mainly in relation to (i) the establishment and expansion of our branch offices in certain first- and second-tier cities, (ii) an increase in the RSU granted, (iii) an increase in the number of our employees, and (iv) an increase in the average salary for our employees and an increase in depreciation and amortization.

Other income, net

Our other net income increased significantly from RMB16.2 million in the six months ended June 30, 2021 to RMB 59.9 million in the six months ended June 30, 2022, primarily due to the increase in government granted we received in relation to an increase in government subsidy as a reward to our contribution to local economic growth.

Other gains/(losses), net

We recorded RMB598.7 million in other losses in the six months ended June 30, 2022 compared to our RMB2.5 million in other gains in the six months ended June 30, 2021, primarily due to the one-off share-based payments related to Pre-**[REDACTED]** Investments in relation to the supplemental share purchase agreement in April, 2022.

Finance income and finance costs

Our net finance income increased significantly from RMB5.9 million in the six months ended June 30, 2021 to RMB23.7 million in the six months ended June 30, 2022, primarily due to an increase in interests from bank primarily in relation to the holdings of term deposits with initial term over three months.

Income tax expense

Our income tax expenses increased by 3.4% from RMB113.7 million in the six months ended June 30, 2021 to RMB117.5 million in the six months ended June 30, 2022, which was in line with an increase of our taxable income in the six months ended June 30, 2022.

Profit/loss for the period

As a result of the foregoing, our profit for the period decreased from a profit of RMB357.6 million in the six months ended June 30, 2021 to a loss of RMB260.8 million in the six months ended June 30, 2022, primarily due to the one-off share-based payments related to Pre-**[REDACTED]** Investments, partially offset by the increase in our gross profit. We recorded a net profit margin of 15.5% in the six months ended June 30, 2021 and a net loss margin of 11.5% in the six months ended June 30, 2022, primarily due to the one-off share-based payments related to Pre-**[REDACTED]** Investments in the six months ended June 30, 2022, partially offset by the increase in our gross profit.

Adjusted net profit (Non-IFRS measure) and adjusted net profit margin (Non-IFRS measure) for the period

Our adjusted net profit (Non-IFRS measure) for the period increased by 11.9% from RMB379.6 million in the six months ended June 30, 2021 to RMB424.9 million in the six months ended June 30, 2022, primarily as the result of an increase in our gross profit and our adjusted net profit margin (Non-IFRS measure) increased from 16.5% to 18.8%, for the respective periods, primarily in relation to the increase in the average selling price of our products.

2021 Compared to 2020

Revenue

Our revenue increased by 16.5% from RMB4,120.4 million in 2020 to RMB4,800.2 million in 2021, primarily due to (i) the increase in the demand for vegetable products and seasoned flour products, and (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 584 as of December 31, 2020 to 623 as of December 31, 2021 and the number of retail points of sale in

China that our distributors' sales network covered increased from approximately 570,000 as of December 31, 2020 to approximately 690,000 as of December 31, 2021. See "Business – Our Sales Channels – Offline Channels."

Seasoned flour products

Revenue from seasoned flour products increased by 8.5% from RMB2,690.3 million in 2020 to RMB2,918.0 million in 2021, primarily due to an increase of the sales volume of our seasoned flour products with relatively stable average selling price. The sales volume increased by 7.8% from 179,511.4 tons in 2020 to 193,598.6 tons in 2021, primarily due to (i) increasing market demand as a result of greater brand recognition among consumers; and (ii) our expansion of distribution network.

Vegetable products

Revenue from vegetable products increased by 42.5% from RMB1,167.5 million in 2020 to RMB1,664.1 million in 2021, primarily due to an increase in the sales volume of our vegetable products. The sales volume increased by 46.0% from 41,585.4 tons in 2020 to 60,699.3 tons in 2021, primarily due to (i) an increase in the market demand for such products; (ii) our expansion of distribution network and a further increase of the distribution coverage of such products; and (iii) a continuous increase in the production capacity for the vegetable products with the designed production capacity for vegetable products increased from 45,936.0 tons in 2020 to 79,992.0 tons in 2021. The average selling price per kg decreased by 2.5% from RMB28.1 in 2020 to RMB27.4 in 2021, mainly because we carried out promotion activities for our main vegetable products to seize more market and maintain our product competitiveness.

Bean-based and other products

Revenue from bean-based and other products decreased by 16.9% from RMB262.5 million in 2020 to RMB218.1 million in 2021, primarily due to a decrease in the sales volume of our bean-based and other products. The sales volume decreased from 10,161.0 tons in 2020 to 7,212.7 tons in 2021, primarily because (i) we adopted a new packaging design for our bean-based products, and it took time for consumers to become familiar with our new design; and (ii) we discontinued certain such products to optimize the product mix. The average selling price of our bean-based and other products increased from RMB25.8 per kg to RMB30.2 per kg mainly due to the increase in sales of products with higher selling prices, such as products in gift boxes.

Cost of sales of goods

Our cost of sales of goods increased by 17.7% from RMB2,554.7 million in 2020 to RMB3,007.2 million in 2021, primarily due to the increases in cost of raw materials and packaging materials, which was generally in line with the growth of our revenue. The increases in our cost of raw materials and packaging materials were mainly attributable to (i) an increase in the purchase price of certain raw materials of our products; and (ii) increases in the consumption of raw materials and packaging materials as a result of an increase of total production volume.

Gross profit and gross margin

Our gross profit increased by 14.5% from RMB1,565.7 million in 2020 to RMB1,793.0 million in 2021, mainly due to the increase in our revenue. Our gross profit margin remained relatively stable at 38.0% in 2020 and 37.4% in 2021.

- Gross profit from seasoned flour products increased by 3.4% from RMB1,012.2 million in 2020 to RMB1,047.0 million in 2021, mainly due to the increased revenue from such products, while the gross margin from seasoned flour products decreased from 37.6% in 2020 to 35.9% in 2021, mainly due to the increase in the price and procurement cost of soybean oil, one of the major raw materials for producing our seasoned flour products.

- Gross profit from vegetable products increased by 44.8% from RMB458.3 million in 2020 to RMB663.4 million in 2021, mainly due to (i) an increase in the sales volume; and (ii) an increase of our gross margin from vegetable products from 39.3% in 2020 to 39.9% in 2021, which was primarily due to a decrease in employee benefit expenses relating to our manufactory staff as a result of the improvement of production process and automation of Luohe Weidao Plant in 2021, and the decrease in the purchase price of packaging materials of such products, partially offset by a decrease in the selling price of such products from 2020 to 2021.

- Gross profit from bean-based and other products decreased by 13.2% from RMB95.2 million in 2020 to RMB82.7 million in 2021, mainly due to the decrease in the revenue of such products. Gross margin from bean-based and other products increased from 36.3% in 2020 to 37.9% in 2021, mainly due to the increase in the sales of products of higher gross margin under this category, such as products in gift boxes.

Distribution and selling expenses

Our distribution and selling expenses increased by 40.3% from RMB371.0 million in 2020 to RMB520.6 million in 2021, mainly due to (i) an increase in the employee benefit expenses from RMB135.1 million in 2020 to RMB220.5 million (including share-based payment of approximately RMB9.5 million) in 2021, primarily due to an increase in the bonuses of our sales staff as performance incentives; (ii) an increase in promotion and advertising expenses from RMB46.7 million in 2020 to RMB78.7 million in 2021 as a result of an increase in online promotion and advertising expenses primarily incurred in connection with our online advertising activities, such as live streaming, carried out on e-commerce platforms as well as other online media platforms; and (iii) an increase in the transportation expenses, which generally in line with the increase of sales volume of our products from 2020 to 2021.

Administrative expenses

Our administrative expenses increased by 78.6% from RMB201.1 million in 2020 to RMB359.1 million in 2021, mainly due to (i) an increase in employee benefit expenses from RMB131.1 million to RMB218.5 million (including share-based payment of approximately RMB41.0 million) primarily due to an increase in the number and average salaries of administrative staff to support our business growth; and (ii) the incur of **[REDACTED]** expenses in 2021 in relation to the **[REDACTED]**.

Other income, net

Our other net income increased significantly from RMB58.8 million in 2020 to RMB152.7 million in 2021, primarily due to an increase in government subsidy as a reward to our contribution to local economic growth.

Other gains, net

Our net other gains decreased by 62.7% from RMB31.4 million in 2020 to RMB11.7 million in 2021, primarily due to (i) an increase in our donation to support the disaster relief works related to the flood in Henan in 2021; (ii) a decrease in fair value gains on financial assets at fair value through profit or loss as a result of a decrease in our purchase of wealth management products; and (iii) an increase in net foreign exchange losses.

Finance income and finance costs

We recorded a net finance income of RMB19.2 million in 2021, and we recorded a net finance cost of RMB5.3 million in 2020. The change was primarily due to the increase in our interest from bank in 2021 as a result of our increased term deposits with initial term over three months.

Income tax expense

Our income tax expenses increased from RMB259.6 million in 2020 to RMB269.9 million in 2021, primarily due to an increase of our taxable income in 2021.

Profit for the year

As a result of the foregoing, our profit for the year was RMB818.8 million in 2020 and RMB826.7 million in 2021, respectively, which remained relatively stable. Our net profit margin for the year decreased from 19.9% in 2020 to 17.2% in 2021, primarily due to (i) the increase in the purchase price of certain main raw materials; (ii) the increase in our operating costs including distribution and selling expenses, primarily attributable to the increase in bonuses of our sales staff and advertising expenses, and administrative expenses, primarily attributable to the increase in the number and average salaries of administrative staff and the **[REDACTED]** expenses in 2021.

2020 Compared to 2019

Revenue

Our revenue increased by 21.7% from RMB3,384.8 million in 2019 to RMB4,120.4 million in 2020, primarily due to (i) the strong demand for our seasoned flour products and vegetable products, and (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020.

Seasoned flour products

Revenue from seasoned flour products increased by 8.7% from RMB2,474.6 million in 2019 to RMB2,690.3 million in 2020, primarily due to (i) an increase of the sales volume of our seasoned flour products in 2020; and (ii) an increase of the average selling price of such products. The sales volume increased slightly from 173,296.0 tons in 2019 to 179,511.4 tons in 2020, primarily due to (i) increasing market demand as a result of greater brand recognition among consumers; and (ii) an expanded coverage of our distribution network. See "Business – Our Sales Channels – Offline Channels." The average selling price per kg increased by 4.9% from RMB14.3 in 2019 to RMB15.0 in 2020 primarily because we selectively increased the selling price of certain seasoned flour products.

Vegetable products

Revenue from vegetable products increased by 75.6% from RMB665.0 million in 2019 to RMB1,167.5 million in 2020, primarily due to (i) an increase in the sales volume; and (ii) an increase in the average selling price of such products. The sales volume increased by 72.3% from 24,130.1 tons in 2019 to 41,585.4 tons in 2020, primarily due to (i) an increase in the market demand for such products, especially a continuous increase in the popularity of *Fengchi Kelp* among consumers; (ii) an increase in our production capacity of our vegetable products in 2020 with our total designed capacity growing by 21,180 tons from 2019 to 2020; (iii) our expansion of distribution network and an increase of the distribution coverage of such products; and (iv) our launch of vegetable products in new package sizes. The average selling price per kg increased by 1.8% from RMB27.6 in 2019 to RMB28.1 in 2020, due to changes in the product mix within this product category. Such changes in the product mix mainly represent increased sales of certain vegetable products with higher average selling prices per kg.

Bean-based and other products

Revenue from bean-based and other products increased by 7.1% from RMB245.2 million in 2019 to RMB262.5 million in 2020, primarily due to a 19.4% increase in the average selling price per kg of such products from RMB21.6 in 2019 to RMB25.8 in 2020. This is mainly due to changes of the product mix of other products and an increase of the selling price of certain bean-based products such as our Doupi products in certain package sizes. The sales volume of bean-based and other products decreased by 10.7% from 11,377.9 tons in 2019 to 10,161.0 tons in 2020 as a result of the optimization of the product mix of such products. We discontinued some production lines of certain bean-based and other products such as Tofu Skin and Dougan in 2020.

Cost of sales of goods

Our cost of sales of goods increased by 19.9% from RMB2,130.5 million in 2019 to RMB2,554.7 million in 2020, primarily due to (i) increases in the consumption of raw materials and packaging materials as a result of an increase of total production volume, which was partially offset by the decrease in the purchase price of packaging materials; and (ii) an increase in the employee benefit expenses primarily due to an increase in the number of our staff for newly established production lines and increased salaries of workers at our production lines to help overcome the difficulties caused by the COVID-19 pandemic.

Gross profit and gross margin

Our gross profit increased by 24.8% from RMB1,254.3 million in 2019 to RMB1,565.7 million in 2020, mainly due to the increase in our revenue. Our gross profit margin increased from 37.1% in 2019 to 38.0% in 2020, mainly due to the increased selling prices of seasoned flour products and changes in the product mix.

- Gross profit from seasoned flour products increased by 10.0% from RMB920.0 million in 2019 to RMB1,012.2 million in 2020, primarily due to increased revenue from such products. Gross margin from seasoned flour products increased from 37.2% in 2019 to 37.6% in 2020, primarily because we selectively increased the selling prices of certain products.

- Gross profit from vegetable products increased by 85.1% from RMB247.6 million in 2019 to RMB458.3 million in 2020, primarily due to the substantial increase in the revenue from such products. Gross margin from vegetable products increased from 37.2% in 2019 to 39.3% in 2020, primarily due to changes in the product mix.

- Gross profit from bean-based and other products increased by 9.8% from RMB86.7 million in 2019 to RMB95.2 million in 2020, primarily due to an increase in the revenue from such products. Gross margin from bean-based and other products increased from 35.4% in 2019 to 36.3% in 2020, primarily due to changes of the product mix of our other products and an increase of the selling prices of certain bean-based products in 2020.

Distribution and selling expenses

Our distribution and selling expenses increased by 31.9% from RMB281.3 million in 2019 to RMB371.0 million in 2020, which is primarily due to (i) an increase in the employee benefit expenses relating to the continuous expansion of our sales team in 2020; (ii) an increase in the transportation expenses, which is generally in line with the increase of sales volume of our products from 2019 to 2020; and (iii) an increase in promotion and advertising expenses as a result of continued increase in online promotion fees paid to e-commerce platforms such as Tmall, JD.com to promote our products and our brands.

Administrative expenses

Our administrative expenses increased by 45.5% from RMB138.2 million in 2019 to RMB201.1 million in 2020, primarily due to an increase in the employee benefit expenses as a result of an increase in the number of our administrative staff to cater for the need of our business expansion.

Other income, net

Our other net income increased by 67.4% from RMB35.1 million in 2019 to RMB58.8 million in 2020. Such increase mainly represents government subsidy as a reward to our contribution to local economy and job creation.

Other gains/(losses), net

We recorded net other losses of RMB1.7 million in 2019, and we recorded net other gains of RMB31.4 million in 2020, primarily due to an increase in the fair value of wealth management products and structured deposits as a result of our cash management activities.

Finance income and finance costs

Our finance costs increased by 79.9% from RMB3.2 million in 2019 to RMB5.8 million in 2020, primarily due to an increase in interest expense on bank borrowings mainly relating to upgrades of our equipment, partially offset by an increase in borrowing costs capitalized in property, plant and equipment relating to our construction of new production line in Luohe Weidao Plant in 2020. Our finance income increased significantly from RMB0.1 million in 2019 to RMB0.5 million in 2020, primarily due an increase in interests from bank as a result of an increase of our cash in bank.

Income tax expense

Our income tax expenses increased by 24.5% from RMB208.4 million in 2019 to RMB259.6 million in 2020, primarily due to an increase of our taxable income in 2019 and 2020.

Profit for the year

As a result of the foregoing, our profit for the year increased by 24.4% from RMB658.1 million in 2019 to RMB818.8 million in 2020. Our net profit margin for the year increased from 19.4% in 2019 to 19.9% in 2020, primarily due to increased selling prices of certain products and enhancement in product mix.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, borrowings.

We had cash and cash equivalents of RMB89.0 million, RMB161.7 million, RMB494.3 million, RMB1,316.7 million, and RMB180.9 million as of December 31, 2019, 2020, 2021 and June 30, 2021 and 2022, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, borrowings under our banking facilities from time to time and the net **[REDACTED]** received from the **[REDACTED]**.

Taking into account the financial resources available to us including our cash and cash equivalents on hand, cash flow generated from operating activities and the estimated net **[REDACTED]** from the **[REDACTED]**, our Directors are of the view, and the Joint Sponsors concur, that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

The following table sets out our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Net cash generated from operating activities	750,005	706,401	889,126	450,865	447,159
Net cash used in investing activities	(619,554)	(878,781)	(1,780,817)	(383,403)	(1,126,607)
Net cash (used in)/generated from financing activities	(217,693)	245,605	1,260,476	1,118,527	353,679
Net (decrease)/increase in cash and cash equivalents	(87,242)	73,225	368,785	1,185,989	(325,769)
Cash and cash equivalents at the beginning of the year/period	176,236	88,994	161,740	161,740	494,275
Effects of exchange rate changes on cash and cash equivalents	—	(479)	(36,250)	(31,022)	12,349
Cash and cash equivalents at the end of the year/period	88,994	161,740	494,275	1,316,707	180,855

Net Cash Generated from Operating Activities

Net cash generated from operating activities primarily comprises our profit or loss before tax for the period adjusted by: (i) non-cash and non-operating items; and (ii) changes in working capital.

In the six months ended June 30, 2022, our net cash generated from operating activities was RMB447.2 million, which was primarily attributable to loss before tax of RMB143.3 million, as adjusted by non-cash items such as (i) one-off share-based payments related to Pre-**[REDACTED]** Investments of RMB628.8 million, (ii) depreciation of property, plant and equipment of RMB57.8 million, (iii) employee benefits expense - share based payments of RMB49.1 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB22.7 million, and positive movements in working capital of: (i) a decrease in inventories of RMB93.4 million; (ii) a decrease in trade, other receivables and prepayments of RMB57.1 million primarily due to an decrease in input VAT recoverable and such cash inflows were partially offset by a decrease in trade and other payables of RMB66.7 million primarily due to an decrease in trade payables for raw materials and packaging materials and a decrease in contract liabilities of RMB35.0 million.

In 2021, our net cash generated from operating activities was RMB889.1 million, which was primarily attributable to profit before tax of RMB1,096.6 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB92.0 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB27.4 million, and negative movements in working capital of: (i) an increase in inventories of RMB63.2 million; (ii) an increase in trade, other receivables and prepayments of RMB55.7 million primarily due to an increase in input VAT recoverable; and (iii) a decrease in contract liabilities of RMB52.7 million; and such cash outflows were partially offset by an increase in trade and other payables of RMB118.3 million primarily relating to salary and welfare payables and deposits payables.

In 2020, our net cash generated from operating activities was RMB706.4 million, which was primarily attributable to profit before tax of RMB1,078.3 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB50.5 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB36.6 million, and negative movements in working capital of: (i) an increase in inventories of RMB150.0 million primarily due to our reserve of raw materials in anticipation of increased demand; (ii) an increase in trade, other receivables and prepayments of RMB127.3 million primarily due to an increase in prepayments for raw materials; and such cash outflows were partially offset by an increase in trade and other payables of RMB82.5 million, primarily relating to salary and welfare payables.

In 2019, our net cash generated from operating activities was RMB750.0 million, which was primarily attributable to our profit before tax of RMB866.5 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB38.2 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB14.0 million, and positive movements in working capital of: (i) an increase in trade and other payables of RMB90.5 million, primarily relating to trade payables and salary and welfare payables; (ii) an increase in contract liabilities of RMB87.5 million, primarily because the customers ordered more products from us in December 2019 in anticipation of Chinese New Year in January 2020, whereas the Chinese New Year in 2019 was in February, and such cash inflows were partially offset by (i) an increase in inventories of RMB93.8 million primarily due to our increased inventory of raw materials in anticipation of growing demand for our products; and (ii) an increase in trade, other receivables and prepayments of RMB44.5 million related to prepayments for raw materials and an increase in input VAT recoverable.

Net Cash Used in Investing Activities

In the six months ended June 30, 2022, our net cash used in investing activities was RMB1,126.6 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB3,632.3 million mainly relating to our purchase of structured deposits and investment in fund management products; (ii) payments for acquisition of property, plant and equipment of RMB505.2 million mainly relating to our purchase of properties and the construction of Luohe Xinglin Plant and (iii) increase in our investment in term deposits with initial term over three months of RMB475.5 million. These cash outflow were partially offset by (i) redemption of financial assets at fair value through profit or loss of RMB2,920.7 million as most of financial products we purchased are of short-term nature; and (ii) redemption of term deposits with initial term of over three months of RMB763.0 million.

In 2021, our net cash used in investing activities was RMB1,780.8 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB11,736.8 million, mainly relating to our purchase of wealth management products and structured deposits; (ii) increase in our investment in term deposits with initial term over three months of RMB2,375.7 million; and (iii) payments for acquisition of property, plant and equipment of RMB377.3 million mainly relating to our Luohe Weidao Plant and Luohe Xinglin Plant. These cash outflows were partially offset by (i) redemption of financial assets at fair value through profit or loss of RMB11,854.4 million as most of wealth management products purchased by us are of short-term nature; and (ii) redemption of term deposits with initial term of over three months of RMB822.6 million.

In 2020, our net cash used in investing activities was RMB878.8 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB22,838.7 million, relating to our purchase of wealth management products and structured deposits; (ii) payments for acquisition of property, plant and equipment of RMB336.5 million mainly relating to our Luohe Weidao Plant and Luohe Xinglin Plant; and (iii) government grants received related to assets of RMB107.0 million, which mainly represent subsidies related to our investment in production capacity expansion, representing investment in Luohe Xinglin Plant as well as Luohe Weidao Plant. Our Luohe Xinglin Plant is expected to become fully operational by 2023 as disclosed in "Future Plans and Use of **[REDACTED]**". The basic construction of our Luohe Weidao Plant was completed and is currently under further expansion. For details of our plants, see "Business – Our Production". These cash outflows were partially offset by redemption of financial assets at fair value through profit or loss of RMB22,441.6 million as most of wealth management products purchased by us are of short-term nature.

In 2019, our net cash used in investing activities was RMB619.6 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB12,549.9 million, relating to our purchase of wealth management products and structured deposits; (ii) payments for acquisition of property, plant and equipment of RMB190.6 million relating to our newly constructed Luohe Weidao Plant and newly added Pingping production line and purchase of production equipment to improve their production capacity. These cash outflows were partially offset by redemption of financial assets at fair value through profit or loss of RMB12,105.3 million as most of wealth management products purchased by us are in short term.

Net Cash Generated from/(Used in) Financing Activities

In the six months ended June 30, 2022, our net cash generated from financing activities was RMB353.7 million, which was primarily attributable to proceeds from bank borrowings of RMB858.3 million, which was partially offset by repayments of bank borrowings of RMB500.0 million.

In 2021, our net cash generated from financing activities was RMB1,260.5 million, which was primarily attributable to the capital injection in connection with Pre-**[REDACTED]** Investment of RMB3,600.7 million, which was partially offset by (i) the repurchase of shares in connection with Pre-**[REDACTED]** Investments of RMB1,802.1 million; (ii) dividends paid of RMB596.0 million.

In 2020, our net cash generated from financing activities was RMB245.6 million, which was primarily attributable to the proceeds from bank borrowings of RMB320.0 million, which was partially offset by the repayments of bank borrowings of RMB100.0 million.

In 2019, our net cash used in financing activities was RMB217.7 million, which was primarily attributable to dividends paid of RMB308.1 million and was partially offset by proceeds from bank borrowing of RMB100.0 million.

See "– Borrowings and Indebtedness."

KEY LINE ITEMS OF OUR CURRENT ASSETS AND LIABILITIES

The following table sets out our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2019	2020	2021	2022	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) *(unaudited)*
Current assets					
Trade, other receivables and prepayments	136,832	246,777	319,007	262,773	140,323
Inventories	399,930	541,026	604,255	510,825	485,419
Financial assets at fair value through profit or loss	458,564	842,289	802,103	1,562,997	1,046,711
Restricted cash	1,553	12,106	294	165,000	—
Term deposits with initial term of over three months	—	56,133	766,331	491,786	582,011
Cash and cash equivalents	88,994	161,740	494,275	180,855	868,856
Total current assets	**1,085,873**	**1,860,071**	**2,986,265**	**3,174,236**	**3,123,320**
Current liabilities					
Trade and other payables	401,388	462,114	593,855	506,557	606,737
Contract liabilities	189,837	233,251	180,583	145,565	140,079
Current income tax liabilities	49,333	72,848	77,417	72,941	71,157
Borrowings	137,720	393,366	396,112	681,870	499,206
Lease liabilities	8,501	6,372	7,545	5,739	3,482
Total current liabilities	**786,779**	**1,167,951**	**1,255,512**	**1,412,672**	**1,320,661**
Net current assets	**299,094**	**692,120**	**1,730,753**	**1,761,564**	**1,802,659**

Our net current assets increased from RMB299.1 million as of December 31, 2019 to RMB692.1 million as of December 31, 2020, primarily due to an increase in the financial assets at fair value through profit or loss. Our net current assets increased from RMB692.1 million as of December 31, 2020 to RMB1,730.8 million as of December 31, 2021, primarily due to an increase in our term deposits with initial term of over three months and an increase in our cash and cash equivalents. Our net current assets increased from RMB1,730.8 million as of December 31, 2021 to RMB1,761.6 million as of June 30, 2022, primarily due to the increase in our financial assets at fair value through profit or loss mainly in relation to the increase in our purchase of structured deposit.

Inventories

Our inventories mainly include raw materials and packaging materials, finished goods and semi-finished goods, with raw materials and finished goods being the largest components. As of December 31, 2019, 2020, 2021 and June 30, 2022, our raw materials and packaging materials accounted for 88.3%, 90.8%, 87.6% and 89.6% of our total inventories, respectively. Our raw material inventory mainly includes soybean oil, flour and konjac. In particular, as the supply of vegetable raw materials and seasonings are seasonal, we usually purchase these raw materials in advance from their key production region during their harvest season according to our scheduled production plans and expected customer demand. The following table sets out a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**
Raw materials and packaging materials	353,195	491,252	529,538	457,843
Finished goods and goods in transit	39,283	43,727	69,467	46,671
Semi-finished goods	428	395	113	109
Low-value consumption goods	7,024	5,652	5,137	6,202
Total	**399,930**	**541,026**	**604,255**	**510,825**

Our inventories increased by 35.3% from RMB399.9 million as of December 31, 2019 to RMB541.0 million as of December 31, 2020, primarily due to our increased reserve of raw materials, primarily vegetable raw materials and seasonings to cater the growing market demand for our products.

Our inventories increased from 11.7% from RMB541.0 million as of December 31, 2020 to RMB604.3 million as of December 31, 2021, primarily attributable to (i) an increase in our reserve of raw materials and packing materials at the end of 2021 in response to the expected surge in price of certain raw materials at the end of 2021 as well as to mitigate the shortage risk of such raw materials and packing materials in anticipation of the resurgence of COVID-19 cases; (ii) an increase in the price and procurement cost of certain main raw materials of our products in 2021; and (iii) an increase in finished goods for sale in anticipation of the surging sales before the Chinese New Year in January 2022, whereas the Chinese New Year in 2021 was in February.

Our inventories decreased from RMB604.3 million as of December 31, 2021 to RMB510.8 million as of June 30, 2022 primarily due to a decrease in raw materials, which were used for our production during the six months ended June 30, 2022, and we usually purchase certain agricultural raw materials during their harvest season, which is the second half of the year.

We believe there is no recoverability issue for our inventories as of June 30, 2022, which mainly consisted of raw materials, packaging materials and finished products, as we had stored our inventories in well ventilated warehouses with dry storage conditions, controlled temperature and humidity and under stringent inventory control management measures to avoid the risk of deterioration. See "Business - Our Inventory Management." We periodically review our inventories ageing list, which involves comparison of the carrying amount of our inventories with their respective net realizable value, and consider our provision made to be sufficient.

As of September 30, 2022, RMB266.4 million, or 52.2%, of our inventories as of June 30, 2022 had been sold or used.

The table below sets forth the amount of our finished goods by product categories inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
			(ton)	
Seasoned flour products	1,526	1,222	1,269	1,051
Vegetable products	510	1,121	1,410	513
Bean-based and other products	296	185	249	77

The following table sets out the number of our inventory turnover days and turnover days of certain types of inventories for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Inventory turnover days [(1)]	60	67	70	72
– Finished goods and goods in transit inventory turnover days [(2)]	5	6	7	8
– Raw materials and packaging materials inventory turnover days [(3)]	54	60	62	64

(1) Our inventories mainly include raw materials and packaging materials, finished goods and semi-finished goods, with raw materials and finished goods being the largest components. Inventory turnover days for each period equals the average of the beginning and ending balances of inventory for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021 and by 181 for the six months ended June 30, 2022.

(2) Finished goods and goods in transit inventory turnover days for each period equals the average of the beginning and ending balances of finished goods and goods in transit for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021 and by 181 for the six months ended June 30, 2022.

(3) Raw materials and packaging materials inventory turnover days for each period equals the average of the beginning and ending balances of raw materials and packaging materials for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021 and by 181 for the six months ended June 30, 2022.

Our inventory turnover days increased from 60 days in 2019 to 67 days in 2020, primarily due to our reserve of vegetable raw materials in advance in 2021 and six months ended June 30, 2022. Our inventory turnover days remained relatively stable at 70 days and 72 days in 2021 and the six months ended June 30, 2022, respectively.

Trade, Other Receivables and Prepayments

The following table sets out a breakdown of our trade and other receivables:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade receivables:				
Receivables from third parties	18,615	40,744	56,552	54,530
Loss allowance	—	—	(429)	(197)
Total trade receivables	**18,615**	**40,744**	**56,123**	**54,333**
Other receivables:				
Deposits as guarantees to suppliers	4,464	4,953	11,234	8,576
Proceeds receivable from sale of property, plant and equipment	3,018	—	1,400	1,150
Loans to third parties	1,500	800	400	200
Others	923	960	1,201	1,262
Loss allowance	(200)	(800)	(474)	(269)
Total other receivables	**9,705**	**5,913**	**13,761**	**10,919**

Trade Receivables

We generally require our offline distributors to make payments by cash before delivery. In line with the industry practices associated with online e-commerce platforms, we grant up to 90 days of credit terms to our online e-commerce platforms customers.

Our trade receivables significantly increased from RMB18.6 million as of December 31, 2019 to RMB40.7 million as of December 31, 2020 and to RMB56.1 million as of December 31, 2021, primarily due to an increase in product sales through online retailers including Tmall Supermarket and JD Supermarket to which we generally grant longer credit terms. We recorded RMB54.3 million as of June 30, 2022, which was relatively stable compared to that as of December 31, 2021.

Our Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales and the corresponding historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. As at June 30, 2022, the expected loss rates of trade receivables ranged from 0.03% to 4.57%. We made a loss allowance of RMB0.2 million as of the June 30, 2022.

The following table sets forth an aging analysis of our trade receivables, based on invoice date, as of the dates indicated:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Within 90 days	15,751	35,681	52,312	51,661
91-180 days	2,864	5,063	4,240	2,869
	18,615	40,744	56,552	54,530

As of December 31, 2019, 2020, 2021 and June 30, 2022, the ageing of our trade receivables was within 180 days, respectively, among which bad debt losses were not material. Based on our previous experience with collection of trade receivables from and our close cooperation with such entities, we believe there is no recoverability issue for trade receivables as of June 30, 2022, primarily because (i) those outstanding balance were within the credit period granted to such entities; (ii) such entities enjoy good credit quality as they experienced rapid business and financial development during the past several years; and (iii) we have not had any debt collection issues with such entities.

The following table sets out the number of our trade receivables turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade receivables turnover days [(1)]	1.8	2.6	3.7	4.4

(1) Trade receivables turnover days for each period equals the average of the beginning and ending balances of trade receivables for that period divided by revenue for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021 and by 181 for the six months ended June 30, 2022.

During the Track Record Period, the turnover days of trade receivables were well within the credit period granted to our customers. We saw a general increasing trend in the turnover days of our trade receivables during the Track Record Period, primarily due to our increased sales revenue from online channels with relatively longer terms of settlement according to distribution contracts from 2019 to 2021 and the impact of COVID-19 Resurgence during the six months ended June 30, 2022.

As of September 30, 2022, RMB51.3 million, or 94.1%, of our trade receivables as of June 30, 2022 had been subsequently settled.

In relation to the trade receivables of RMB54.5 million as of June 30, 2022, in the opinion of the Company, there was no material recoverability issues with such outstanding trade receivables and the trade receivable provision made was sufficient.

Other Receivables

Our other receivables primarily represent (i) deposits as a guarantee to suppliers, which mainly refer to deposits to certain e-commerce platforms relating to advertisement and promotion activities and staff dormitory rental deposit; and (ii) proceeds receivable from sale of property, plant and equipment relating to our sales of disused production equipment. Our other receivables decreased by 39.1% from RMB9.7 million as of December 31, 2019 to RMB5.9 million as of December 31, 2020, primarily because we did not record proceeds receivable from sale of property, plant and equipment in 2020. Our other receivables increased by 132.7% from RMB5.9 million as of December 31, 2020 to RMB13.8 million as of December 31, 2021, primarily due to (i) an increase in deposits to certain e-commerce platforms; and (ii) an increase of security deposits for purchase of lands. Our other receivables decreased by 20.7% from RMB13.8 million as of December 31, 2021 to RMB10.9 million as of June 30, 2022, primarily due to the return of deposit payment related to land-use-rights.

Prepayments

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Prepayments for raw materials	57,877	125,338	37,800	43,228
Prepayments for services	5,062	6,496	42,281	30,226
Input VAT recoverable	45,573	68,286	159,373	111,443
Prepayment for income tax	—	—	4,946	7,130
Prepayments for **[REDACTED]**	—	—	**[REDACTED]**	**[REDACTED]**
Total prepayments	**108,512**	**200,120**	**249,123**	**197,521**

Our prepayments primarily represent prepayments for raw materials and input VAT recoverable, which represents the value added input tax in excess of the value added output tax, which can be deductible or recoverable in the future. Our prepayments increased by 84.4% from RMB108.5 million as of December 31, 2019 to RMB200.1 million as of December 31, 2020, primarily due to a significant increase in procurement for raw materials, primarily vegetable raw materials, to meet our increase demand for vegetable products in 2020. Our prepayments increased by 24.5% from RMB200.1 million as of December 31, 2020 to RMB249.1 million as of December 31, 2021, primarily due to (i) an increase in input VAT recoverable relating to our purchase of raw materials and equipments; and (ii) an increase in prepayments for consulting services provided by a third-party service provider. Our prepayments decreased by 20.7% from RMB249.1 million as of December 31, 2021 to RMB197.5 million as of June 30, 2022, primarily due to decrease in input VAT recoverable.

As of September 30, 2022, RMB74.6 million, or 37.8% of our prepayments as of June 30, 2022 had been used.

The table below sets forth the breakdown of our prepayments for services by nature during the Track Record Period.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Consulting & legal fees	—	166	31,949	17,650
Promotion and advertisement	3,199	924	3,077	5,257
[REDACTED]	—	—	**[REDACTED]**	**[REDACTED]**
Lease	352	2,119	2,402	2,727
Others	1,511	3,287	2,400	2,026
Total	**5,062**	**6,496**	**42,281**	**30,226**

Our prepayments for services increased by 28.3% from RMB5.1 million as of December 31, 2019 to RMB6.5 million as of December 31, 2020 primarily due to an increase in prepayments for leasing. Our prepayments for services increased significantly from RMB6.5 million as of December 31, 2020 to RMB42.3 million as of December 31, 2021 primarily due to an increase in prepayments for consulting mainly in relation to our engagement of certain consulting firm for our branding positioning and enhancement. Our prepayments for services decreased by 28.5% from RMB42.3 million as of December 31, 2021 to RMB30.2 million as of June 30, 2022 primarily due to a decrease in prepayments for consulting.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss primarily consist of wealth management products, structured deposits and investment in fund management products. We had RMB458.6 million in financial assets at fair value through profit or loss as of December 31, 2019, which increased by 94.6% to RMB892.3 million as of December 31, 2020, primarily representing our wealth management products and structured deposits by the end of 2020 reflecting our improved cash positions at the end of the year. Our financial assets at fair value through profit or loss decreased from RMB892.3 million as of December 31, 2020 to RMB802.1 million as of December 31, 2021, because we strategically decreased our investment in wealth management and structured deposits products in anticipation of a decrease in return rates of such products. Our financial assets at fair value through profit or loss increased by 94.9% from RMB802.1 million as of December 31, 2021 to RMB1,563.0 million as of June 30, 2022, primarily representing our structured deposits and investment in fund management products.

We began to regularly purchase short-term wealth management products in 2018 to improve the return on surplus cash balances and invested in structured deposits in 2019. In 2020, based on our cash flow and the downward trend of market interest rates, we have gradually adopted a wealth management investment strategy by combining long-term and short-term investment and selected wealth management products with higher yields to obtain higher investment returns, while safeguarding our fund liquidity at the same time. During the Track Record Period, we mainly purchased wealth management products and structured deposits issued by large state-owned joint-stock commercial banks. The wealth management products we purchased invest principally in low-to-medium risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China, including, among others, treasury bonds, corporate bonds, medium-term notes, short-term commercial paper and interbank deposits. However, in general, neither the principal nor the returns of any wealth management product are protected or guaranteed by the issuing bank. We generally invest up to 90% of our cash balance, and the average maturity of the wealth management products and structured deposits we mainly purchased was within one year, with an actual average return rate between 1.15% and 4.40% in the Track Record Period.

The following table sets out the fair value balances of our wealth management products, structured deposits and investment in fund management products as of December 31, 2019, 2020 and 2021 and June 30, 2022 and nature of these products such as estimated weighted average return rate.

	Fair value as of December 31,			Fair value as of June 30,	Product nature
	2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000	
Wealth management product	303,240	586,497	454,882	123,040	The estimated weighted average return rate of these products were between 2.15% and 4.40% each year, and the maturity periods of the majority of our wealth management products were below one year. The return of these products was determined by reference to the return of their respective underlying investments.
Structured deposits	155,324	305,792	220,274	882,495	These products mainly consisted of principal protected money market products issued by domestic commercial banks. The estimated weighted average return rate of these products were 1.15% to 4.10% each year. The return of the structured deposits was determined by reference to the return of their respective underlying investments.
Investment in fund management products	—	—	126,947	557,462	The products consisted of bond funds products. The estimated return rate of the product were 1.20% to 4.00% per annum.

We primarily invest in bank-issued short-term wealth management products and structured deposits with a maturity from several months up to one year. Our investment and risk management policies in relation to investment activities include:

- wealth management products shall be of low risk with reasonable returns and liquidity;
- criteria for selecting wealth management products, structured deposits investment and investment in fund management products include our risk exposure, expected return and liquidity;
- investments in wealth management products, structured deposits and investment in fund management products are subject to a multi-layered approval process involving our finance and accounting departments and senior management;
- approvals from our finance and accounting departments and senior management are required for each investment transaction; and

- upon the maturity dates of each investment, designated personnel at our finance department would be responsible for the redemption and disposition of the investments according to the relevant contracts.

Our wealth management product, structured deposits and investment in fund management products were categorized as level 3 as of December 31, 2019, 2020, 2021 and June 30, 2022. We have instituted internal policies on valuation methodologies, models and procedures for valuation of level 3 financial assets. The fair value of the level 3 *"Financial Assets at Fair Value through Profit or Loss"* was estimated using a discounted cash flow valuation model. The significant unobservable inputs are the expected yield rate. Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in note 3.3 of the Appendix I to this document.

Our finance department is responsible for performing the valuations, with focuses on methodologies, computation basis, benchmark yield rate of financial investment products of banks, key assumptions, qualifications and underlying rationales. When carrying out the valuation work, the finance department ensures the valuation methodologies adopted are appropriate as to the underlying financial instruments to reflect accurately the economic substance. Our finance department also performs risk assessments on (i) the effectiveness of its valuation models to enhance the reasonableness and reliability of such models periodically, and (ii) any material adjustments to existing valuation models or the implementation of any new valuation models. The finance department directly reports its valuation process and results to the chief financial officer of our Company, with various discussions being held to understand the computing basis and rationale.

We have formulated internal control policies setting out the approval process for the purchase of wealth management products, structured deposits, investment in fund management products, and the responsible person/department for the enforcement of the policies. Our investment decisions are made on a case-by-case basis after due and careful consideration of our cash flow positions and future working capital requirements based on operational needs. Each transaction for the purchase of wealth management products, structured deposits and investment in fund management products is initiated by our finance department, which should be reviewed by finance department, CFO and CEO, subject to the approval of our Vice Chairman of the Board Mr. Liu Fuping. See "Directors and Senior Management" for a detailed description of relevant members of senior management's qualifications and credentials.

We have also implemented internal control measures to mitigate the investment risks, including the follows:

- We prudently purchase investment products taking into consideration their respective risk rating from major state-owned commercial banks or other financial service institutions with good reputation.

- We issue reports of expected returns and risk analysis before making investment decisions by performing feasibility analysis on our investment plan, scale and expected return rates, and conducting risk assessment on product portfolios and the trustee's creditworthiness for fund management product. We would engage with independent professional institutions for investment advisory services when necessary.

- We monitor the fluctuations in the investment products' performance, maintain regular communication with trustees for timely updates, and would report to relevant members of senior management should the fluctuations indicate abnormalities or high risks.

- We report to CEO at the end of each quarter regarding investment performance and issue an analysis report on entrusted investment management at the end of each year to report to our CEO and Chairman of the Board.

Based on the above procedures, our Directors are satisfied with the valuation work for financial assets categorized within level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountant's Report in Appendix I to this document.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-2 of Appendix I to this document.

In relation to the valuation of the Group's level 3 financial assets, the Joint Sponsors have conducted, among others, the following independent due diligence work:

(i) discussed with the management of the Company, in particular with the relevant personnel in charge of finance and business operations who are familiar with the valuation of the level 3 financial assets, to understand (a) the nature and details of the level 3 financial assets, and the procedures performed for such valuation, (b) the Group's internal policies and procedures regarding classification and valuation assessment of level 3 financial assets and (c) the key basis, methodologies and assumptions adopted by the Group for such independent valuation assessment;

(ii) conducted expert due diligence interview with the Reporting Accountant and noted that (a) the Reporting Accountant is not aware of any material issue related to the valuation of the financial assets at fair value through profit or loss that cause the Reporting Accountant unable to issue an unmodified opinion on the Group's consolidated financial information for the Track Record Period as a whole; and (b) there was no disagreement between the Reporting Accountant and the management of the Company in relation to the classification, key basis, methodologies and assumptions for the valuation of level 3 financial assets; and

(iii) reviewed relevant notes in the Accountant's Report and the relevant underlying agreements concerning the corresponding level 3 financial assets during the Track Record Period.

After the **[REDACTED]**, we intend to continue our investments in the wealth management product, structured deposits and investment in fund management products strictly in accordance with our internal policies and guidelines, Articles of Associations, and the requirements under Chapter 14 of the Listing Rules.

Term Deposits with Initial Term over Three Months

Our term deposits with initial term over three months were RMB1,720.7 million and RMB1,476.4 million as of December 31, 2021 and June 30, 2022, respectively. The decrease in our total term deposits in the first half of 2022 was mainly because we strategically increased our investment in products with comparatively higher investment return as compared to term deposits with initial term over three months. As of June 30, 2022, we had RMB1,004.6 million of term deposits with initial term over three months denominated in Renminbi and RMB471.8 million of term deposits with initial term over three months denominated in US dollar. The decrease in our term deposits with initial term over three months was primarily in relation to redemption of part of our term deposits with initial term over three months denominated in US dollar. Our financial assets measured at fair value through profit and loss were investment in wealth management products, structured deposits and investment in fund management products.

In April 2018, the Guiding Opinions of the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange on Regulating the Asset Management Business of Financial Institutions, with the transition period extended to the end of 2021, was adopted to regulate the wealth management product market in China, increasing uncertainties to return rates of investment in wealth management products and the risks associated therewith. Therefore, after performing internal risk assessment process, we decided to shift a portion of cash from investment in financial assets at fair value through profit or loss to term deposits during the first half of 2021. As of June 30, 2022, we had term deposits with initial term over three months (non-current portion) of RMB984.6 million, of which the fixed interest rate ranged from 3.45% to 4.18% per annum. As a result, we believe term deposit is a suitable alternative to wealth management products considering its similar return rates and low-risk nature.

We expect to incur capital expenditure of approximately RMB725.0 million and RMB976.0 million in 2022 and 2023, respectively, mainly for the construction of productions plants and purchase of related production equipment, which would be primarily financed by cash generated from operating activities and proceeds from our pre-**[REDACTED]** financing. See "– Capital Expenditures and Capital Commitments". As of June 30, 2022, we had cash and cash equivalents of RMB180.9 million and financial assets at fair value through profit or loss of RMB1,563.0 million. In any case, if there is a need for additional working capital under such expansion activities, according to relevant agreements, cash can be withdrawn before the prescribed maturity date, without suffering losses on its principals.

Trade and Other Payables

The following table sets out a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade payables:				
– Third parties	160,201	146,608	177,542	88,064
– Related parties	—	9,234	20,350	12,513
	160,201	155,842	197,892	100,577
Other payables:				
Salary and welfare payables	127,696	171,550	213,883	212,391
Amounts due to related parties	2,366	2,338	260	260
Deposits payables	23,107	23,158	53,667	90,962
Freight charges payables	24,707	25,099	22,169	19,761
Payables for purchase of property, plant and equipment	17,040	35,661	49,768	29,135
Tax payable	12,609	12,473	6,905	6,955
VAT payable related to contract liabilities	16,604	20,761	17,277	11,839
Utilities payables	6,435	6,068	9,234	6,292
Others	10,623	9,164	22,800	28,385
	241,187	**306,272**	**395,963**	**405,980**
	401,388	**462,114**	**593,855**	**506,557**

Trade Payables

Our trade payables are primarily payables to our raw material suppliers and OEM suppliers. We purchased OEM products mainly for sales through online channels to expand consumer choices. See "Business – Our Suppliers." Our trade payables decreased by 2.7% from RMB160.2 million as of December 31, 2019 to RMB155.8 million as of December 31, 2020, primarily due to (i) a decrease in the payables to our OEM suppliers relating to an increase in our production capacity in 2020; and (ii) a decrease in the payables to packaging materials suppliers due to the settlement at the end of the year. Our trade payables increased by 27.0% from RMB155.8 million as of December 31, 2020 to RMB197.9 million as of December 31, 2021, primarily due to an increase in payables for purchasing raw materials and packaging materials to increase our reserves in response to the surge in price of certain raw materials at the end of 2021 as well as to mitigate the shortage risk of such raw materials and packing materials in anticipation of the resurgence of COVID-19 cases. Our trade payables decreased by 49.2% from RMB197.9 million as of December 31, 2021 to RMB100.6 million as of June 30, 2022, primarily due to a decrease in payables for purchasing raw materials and packaging materials.

The following table sets out the number of our trade payables turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade payables turnover days [(1)]	24	23	21	19

(1) Trade payables turnover days for each period equals the average of the beginning and ending balances of trade payables for that period divided by cost of sales of goods for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021 and by 181 for the six months ended June 30, 2022.

We saw a general decreasing trend in the turnover days of our trade payables during the Track Record Period, primarily due to our improved payment efficiency and shortened payment process.

As of December 31, 2019, 2020, 2021, and June 30, 2022, we did not have trade payables aging more than 90 days. We did not have any material defaults in payment of trade payables during the Track Record Period. As of September 30, 2022, RMB99.6 million, or 99.1% of our trade payables as of June 30, 2022 had been subsequently settled.

Other payables

Our other payables primarily represent (i) salary and welfare payables including provisions related to social insurance and housing provident fund contributions, unpaid salaries and year-end awards; and (ii) deposits payables including deposits from distributors. Our other payables increased by 27.0% from RMB241.2 million as of December 31, 2019 to RMB306.3 million as of December 31, 2020, primarily due to an increase in salary and welfare payables as a result of an increase in the number of our employees and an increase in the salaries of our workers at production lines. Our other payables increased by 29.3% from RMB306.3 million as of December 31, 2020 to RMB396.0 million as of December 31, 2021, primarily attributable to (i) an increase in salary and welfare payables as a result of a provision made in relation to our social insurance fund contributions; (ii) an increase in deposits payables primarily referring to quality assurance money in relation to our newly built plants; and (iii) an increase in payables for property, plant and equipments for our newly built plants. We recorded RMB406.0 million in other payables as of June 30, 2022, which remained relatively stable compared with that as of December 31, 2021.

Contract Liabilities

Our contract liabilities are primarily advance payments from customers. Our contract liabilities increased by 22.9% to RMB233.3 million as of December 31, 2020, primarily due to an increase in the demand for our products from our distributors.

Our contract liabilities decreased by 22.6% from RMB233.3 million as of December 31, 2020 to RMB180.6 million as of December 31, 2021, primarily due to (i) an increase in products we delivered to distributors at the end of 2021 in anticipation of the Chinese New Year in January 2022, whereas the Chinese New Year in 2021 was in February; and (ii) an improved effectiveness of our products delivery process.

Our contract liabilities decreased by 19.4% from RMB180.6 million as of December 31, 2021 to RMB145.6 million as of June 30, 2022, primarily because our distributors placed more orders with us at the end of 2021 in anticipation of the Chinese New Year in January 2022. As of September 30, 2022, RMB119.1 million, or 81.8% of our contract liabilities as of June 30, 2022 was subsequently recognized as revenue.

BORROWINGS AND INDEBTEDNESS

During the Track Record Period, our indebtedness included borrowings and lease liabilities.

The following table sets forth the breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Borrowings				
Secured borrowings from bank	100,000	320,000	460,112	819,170
Unsecured borrowings from the companies controlled by the Controlling Shareholders	37,720	73,366	—	—
Lease liabilities	25,812	17,482	14,715	9,785
Total	**163,532**	**410,848**	**474,827**	**828,955**

Our borrowings are RMB137.7 million, RMB393.4 million, and RMB460.1 million and RMB819.2 million as of December 31, 2019, 2020, 2021 and June 30, 2022. Our borrowings are primarily short-term secured bank loans which we obtain for the construction of plants and other operating needs.

Our borrowings increased significantly from RMB137.7 million in 2019 to RMB393.4 million in 2020, primarily due to a working capital loan of RMB200.0 million which we obtained from a Chinese commercial bank. See note 30 of the Appendix I of this document. Our borrowings increased from RMB393.4 million as of December 31, 2020 to RMB460.1 million as of December 31, 2021, primarily due to an non-current portion of secured borrowings from bank of RMB64.0 million as of December 31, 2021. Our borrowings increased from RMB460.1 million as of December 31, 2021 to RMB819.2 million as of June 30, 2022, primarily due to an increase in borrowings recorded under current liabilities as we had utilized more diversified financing resources for our working capital requirements. As of September 30, 2022, being the indebtedness date for the purpose of the indebtedness statement, we had a total indebtedness of RMB653.4 million, including bank borrowings of RMB646.4 million, which were primarily guaranteed bank borrowings, with effective interest rates ranging from 1.31% to 3.97% per annum, and lease liabilities of RMB7.0 million. As of September 30, 2022, we had unutilized banking facilities of RMB52.7 million.

Our Directors confirm that, as of the Latest Practicable Date, there was no material covenant which would impact our ability to undertake additional debt financing. Our Directors further confirm that we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our current and non-current lease liabilities were RMB25.8 million, RMB17.5 million, RMB14.7 million and RMB9.8 million, respectively, primarily representing our outstanding payments mainly in respect of leases of equipment and certain properties from third parties.

Except as disclosed above, during the Track Record Period and up to June 30, 2022, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2019, 2020, 2021 and June 30, 2022.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

Capital Expenditures

The following table sets out a breakdown of our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**
				(unaudited)	
Payments for acquisition of property, plant and equipment	190,619	336,505	377,290	157,217	505,187
One-off payment made for purchase of right-of-use assets	—	113,346	—	—	63,220
Payment of intangible assets	387	281	15,198	592	5,501
Total	**191,006**	**450,132**	**392,488**	**157,809**	**573,908**

Our historical capital expenditures primarily consist of payments for acquisition of property, plant and equipment, one-off payment made for purchase of right-of-use assets and payment of intangible assets. We funded our capital expenditure requirements mainly from cash generated from operations.

We plan to fund our planned capital expenditures using cash generated from operations and the net **[REDACTED]** received from the **[REDACTED]**. We expect our capital expenditures to be approximately RMB**[REDACTED]** million and RMB**[REDACTED]** million in 2022 and 2023, respectively, which will mainly be used for construction of our Luohe Xinglin Plant and Yunnan Qujing Plant and purchase of related production equipment. See "Future Plans and Use of **[REDACTED]**". We plan to support such capital expenditures with net **[REDACTED]** received from the **[REDACTED]**, net cash generated from operating activities and interest-bearing borrowings.

Capital Commitments

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had capital commitments for property, plant and equipment of RMB64.2 million, RMB58.5 million, RMB141.7 million and RMB91.9 million, respectively.

We recognized right-of-use assets for leases, other than short-term and low-value leases, see note 18 in Appendix I of this document. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had commitment about short-term lease and low-value lease of RMB4.6 million and RMB1.9 million, RMB1.9 million and RMB3.8 million, respectively.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

See note 35 of Appendix I to this document for more details about our related party transactions during the Track Record Period. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance. As of June 30, 2022, the balances of amounts due to the Controlling Shareholders, borrowings guaranteed by the Controlling Shareholders, borrowings from the companies controlled by the Controlling Shareholders during the Track Record Period, which were non-trade in nature, had been settled. The balances with other related parties as of December 31, 2019, 2020, 2021 and June 30, 2022 were trade in nature.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the periods indicated:

	Year ended/As of December 31,			Six months ended/As of June 30,
	2019	2020	2021	2022
Net profit/(loss) margin[1]	19.4%	19.9%	17.2%	(11.5%)
Adjusted net profit margin (Non-IFRS measure)[2]	19.5%	19.9%	18.9%	18.8%
Return on assets[3]	49.9%	35.7%	20.3%	(9.4%)
Adjusted return on assets (Non-IFRS measure)[4]	50.0%	35.8%	22.3%	15.3%
Return on equity[5]	135.6%	66.9%	31.2%	(13.4%)
Adjusted return on equity (Non-IFRS measure)[6]	135.7%	67.1%	34.2%	21.8%
Current ratio[7]	1.38	1.59	2.38	2.25
Quick ratio[8]	0.87	1.13	1.90	1.89
Gearing ratio[9]	16.9%	24.1%	12.5%	19.8%

(1) Equals profit/(loss) for the year/period divided by revenue and multiplied by 100%. See "– Description of Major Components of Our Results of Operations."

(2) Equals adjusted net profit for the year/period as a non-IFRS measure divided by revenue and multiplied by 100%.

(3) Equals profit for the years ended December 31, 2019, 2020 and 2021, or annualized profit/(loss) for the six months ended June 30, 2022 divided by the average of the beginning and ending balance of total assets for that period and multiplied by 100%.

(4) Equals adjusted net profit as a non-IFRS measure for the years ended December 31, 2019, 2020 and 2021, or annualized adjusted net profit as a non-IFRS measure for the six months ended June 30, 2022 divided by the average of the beginning and ending balance of total assets for that period and multiplied by 100%.

(5) Equals profit for the years ended December 31, 2019, 2020 and 2021, or annualized profit/(loss) for the six months ended June 30, 2022 divided by the average of the beginning and ending balance of total equity for that period and multiplied by 100%.

(6) Equals adjusted net profit as a non-IFRS measure for the years ended December 31, 2019, 2020 and 2021, or annualized adjusted net profit as a non-IFRS measure for the six months ended June 30, 2022 divided by the average of the beginning and ending balance of total equity for that period and multiplied by 100%.

(7) Equals current assets divided by current liabilities as of the same date.

(8) Equals current assets less inventories and divided by current liabilities as of the same date.

(9) Equals total debt divided by total equity and multiplied by 100%.

Return on Assets

The return on assets ratio decreased from 20.3% in 2021 to (9.4%)% in the six months ended June 30, 2022, primarily due to the change of our net profit of RMB826.7 million in 2021 to net loss of RMB260.8 million in the six months ended June 30, 2022.

The return on assets ratio decreased from 35.7% in 2020 to 20.3% in 2021, primarily due to an increase in total assets of RMB2,250.1 million in 2021 as a result of (i) an increase of RMB1,554.5 million in our term deposits with initial term of over three months (including current and non-current portions) and (ii) an increase of RMB300.9 million in our property, plant and equipment.

The return on assets ratio decreased from 49.9% in 2019 to 35.7% in 2020, primarily due to an increase in total assets of RMB1,296.6 million in 2020 as a result of an increase of RMB433.7 million in our total financial assets at fair value though profit or loss (including both current and non-current portions) and an increase of RMB292.4 million in property, plant and equipment.

Return on Equity

The return on equity ratio decreased from 31.2% in 2021 to (13.4%) in the six months ended June 30, 2022, primarily due to the change of our net profit of RMB826.7 million in 2021 to net loss of RMB260.8 million in the six months ended June 30, 2022.

The return on equity ratio decreased from 66.9% in 2020 to 31.2% in 2021, primarily due to increases in our retained earnings and other reserves from capital injection.

The return on equity ratio decreased from 135.6% in 2019 to 66.9% in 2020, primarily due to an increase of our equity of RMB818.1 million due to an increase in our retained earnings related to our significant profit growth in 2020.

Current Ratio and Quick Ratio

The current ratio decreased from 2.38 as of December 31, 2021 to 2.25 as of June 30, 2022 and the quick ratio decreased from 1.90 as of December 31, 2021 to 1.89 as of June 30, 2022, primarily due to an increase of RMB157.2 million in our current liabilities mainly attributable to an increase of RMB285.8 million in our secured borrowings from bank (current portions), while our current assets increased slightly by 6.3% in the six months ended June 30, 2022.

The current ratio increased from 1.59 as of December 31, 2020 to 2.38 as of December 31, 2021 and the quick ratio increased from 1.13 as of December 31, 2020 to 1.90 as of December 31, 2021, primarily due to an increase of RMB710.2 million in our term deposits with initial term of over three months (current portions), while our current liabilities increased by 7.5% in 2021.

The current ratio increased from 1.38 as of December 31, 2019 to 1.59 as of December 31, 2020 and the quick ratio increased from 0.87 as of December 31, 2019 to 1.13 as of December 31, 2020, primarily due to an increase of our current assets of 71.3% in 2020, mainly attributable to an increase of RMB383.7 million in our current financial assets at fair value through profit or loss in 2020, while our current liabilities increased by 48.4% in 2020.

Gearing Ratio

The gearing ratio increased from 12.5% as of December 31, 2021 to 19.8% as of June 30, 2022, primarily due to an increase in our secured borrowings from bank.

The gearing ratio decreased from 24.1% as of December 31, 2020 to 12.5% as of December 31, 2021, primarily due to an increase in our retained earnings and other reserves from capital injection in 2021.

The gearing ratio increased from 16.9% as of December 31, 2019 to 24.1% as of December 31, 2020, primarily because we obtained a working capital loan of RMB200.0 million from a Chinese commercial bank.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risk (interest rate, currency risk and other price risk), credit risk and liquidity risk.

Market Risk

Market risk comprises two types of risks, which arise from recognized financial assets and liabilities not denominated in the functional currency (foreign exchange risk) and interest income/costs from cash and cash equivalents and borrowing as a result of changes in interest rates (interest rate risk). See note 3.1(a) of Appendix I to this document.

Foreign exchange risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of the respective group entities. Our Group manages its foreign exchange risk by minimizing non-functional currency transactions.

Our Group mainly operates in China with most of the transaction settled in RMB. The functional currencies of the subsidiaries in mainland is RMB, while the functional currency of our Company and subsidiaries outside mainland of China is HKD or USD. Both the entities in and outside mainland of China have assets and liabilities like cash at bank and other major licensed payment institution, restricted cash, term deposits with initial term over three months are denominated in USD, and HKD. Foreign exchange risk arises from the fluctuation in exchange rate.

Our Group has continued to closely track and manage its exposure to fluctuation in foreign exchange rates confronted by the majority of our Group's deposits denominated in foreign currencies during the Track Record Period. Our Group did not enter into any forward contract to manage its exposure to foreign exchange risk for the Track Record Period.

Interest rate risk

Our Group's income and operating cash flows are substantially independent from changes in market interest rate. Borrowings carried at floating rates expose our Group to cash flow interest-rate risk, which is partially offset by cash held at variable rates, whereas borrowings carried at fixed rates expose our Group to fair value interest-rate risk.

Credit Risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to our Group. Our Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

Credit risk is managed on a group basis. The credit risk of our Group's financial assets, which mainly comprise cash and cash equivalents, restricted cash, term deposits with initial term over three months, trade receivables, other receivables and financial assets at fair value through profit or loss, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

All of our Group's trade receivables and other receivables have no collateral.

Our Group assessed the credit quality of the counterparties by taking into account their financial position, credit history, forward looking information and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

See note 3.1(b) of Appendix I to this document.

Liquidity Risk

To manage the liquidity risk, our Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Company's operation and mitigate the effects of fluctuations cash flows. Our Company expects to fund its future cash flow needs through internally generated cash flows from operations.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 30 of Appendix I to this document. Generally, there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within one year after receipt of goods or services.

See note 3.1(c) of Appendix I to this document.

DIVIDEND

We paid dividends of RMB308.1 million, RMB1.4 million, RMB596.0 million and nil, respectively, in 2019, 2020, 2021 and the six months ended June 30, 2022.

We may distribute dividends by way of cash or by other means that our Board considers appropriate. Distribution of dividends is subject to the discretion of our Board and, if necessary, the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that our Board may deem relevant. Subject to applicable laws and regulations, our dividend policy is to distribute to our Shareholders no less than 25% of our distributable profits for any particular year after the **[REDACTED]**. We cannot assure you that we will be able to distribute dividends of the above amount or any amount, or at all, in any year. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future.

Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Cayman Companies Act. We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries and other reserves lawfully available for distribution. Our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

DISTRIBUTABLE RESERVES

As of June 30, 2022, our Company had a distributable reserve of RMB608.8 million.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited **[REDACTED]** adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the **[REDACTED]** as if it had taken place on December 31, 2021 and based on the consolidated net tangible assets attributable to the owners of our Company as at June 30, 2022 as shown in the Accountant's Report in Appendix I to this document, and adjusted as described below.

This unaudited **[REDACTED]** adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the **[REDACTED]** been completed as at June 30, 2022 or at any future date.

	Audited consolidated net tangible assets attributable to the owners of our Company as of June 30, 2022	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to the owners of our Company as of June 30, 2022	Unaudited [REDACTED] adjusted consolidated net tangible assets per share	
	Note 1	Note 2		Note 3	Note 4
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the **[REDACTED]** of HK$**[REDACTED]** per share	4,122,734	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on the **[REDACTED]** of HK$**[REDACTED]** per share	4,122,734	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

(1) The audited consolidated net tangible assets attributable to the owners of our Company as of June 30, 2022 is extracted from the Accountant's Report set forth in Appendix I to the document, which is based on the audited consolidated net assets attributable to the owners of our Company as of June 30, 2022 of RMB4,136,090,000 with an adjustment for the intangible assets attributable to the owners of our Company as of June 30, 2022 of RMB13,356,000.

(2) The estimated net **[REDACTED]** from the **[REDACTED]** are based on the indicative **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** per share after deduction of the estimated **[REDACTED]** fees and other related expenses payable by our Company (excluding RMB**[REDACTED]** which had been charged to the consolidated statements of profit or loss up to June 30, 2022), and takes no account of any **[REDACTED]** which may be issued upon the exercise of the **[REDACTED]**.

(3) The unaudited **[REDACTED]** adjusted consolidated net tangible assets per share are determined after the adjustments as described in note (2) above and on the basis that **[REDACTED]** shares are in issue, assuming the **[REDACTED]** had been completed on June 30, 2022 but takes no account of any shares which may fall to be issued upon the exercise of the **[REDACTED]**.

(4) For the purpose of this unaudited **[REDACTED]** adjusted consolidated net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK$1.00 to RMB[0.9082]. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) No adjustments have been made to the unaudited **[REDACTED]** adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2022.

[REDACTED] EXPENSE

[REDACTED] expenses represent professional fees, **[REDACTED]** and other fees incurred in connection with the **[REDACTED]**. We expect to incur **[REDACTED]** expenses of approximately HK$**[REDACTED]** million (based on the mid-point of the indicative **[REDACTED]** range and assuming the **[REDACTED]** is not exercised), of which approximately HK$**[REDACTED]** million will be directly attributable to the issue of our Shares and deducted from equity, and the remaining HK$**[REDACTED]** million will be expensed in our consolidated statements of profit or loss. The **[REDACTED]** expense is expected to account for **[REDACTED]**% of gross **[REDACTED]** from the **[REDACTED]**. Our Directors do not expect such expenses to materially impact our results of operations in 2022.

The following table sets forth the breakdown of **[REDACTED]** expenses by nature.

[REDACTED] fee breakdown	**Total Amount**	
	(assuming the [REDACTED] is not exercised)	**(assuming the [REDACTED] is fully exercised)**
	(HKD in millions)	
[REDACTED] fees	**[REDACTED]**	**[REDACTED]**
Non-**[REDACTED]** fees	**[REDACTED]**	**[REDACTED]**
Professional fees	**[REDACTED]**	**[REDACTED]**
Non-professional fees	**[REDACTED]**	**[REDACTED]**

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.